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# **The MP3 Trilogy: A Critique of the Recent US Cases Involving the Digital Distribution of Music**

**Prakash Kerai**

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**Submitted for the degree of Master of Jurisprudence**



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Department of Law**

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### **Abstract**

The goal of copyright law has always been to balance society's interest in access to information against the right of the creators to profit from the fruits of their labour. However, every so often copyright law comes up against a new technology that threatens the ability of copyright holders to enforce their rights.

Initially, these new technologies seem to be the death knell to copyright protection, but in nearly every case copyright law has adjusted to the new technology. In the process often creating a lucrative source of revenue for the copyright holders who had initially been so opposed to its introduction.

The Internet is the most recent in a line of copyright-threatening technologies. In the context of digital music, the Internet has upset the balance between the consumer and the copyright holder in an unprecedented manner.

From the US perspective this thesis examines some of the first high-profile cases involving the Internet and digital music distribution. Firstly, the thesis provides a background to music, technology, and copyright law. Secondly, it details and critically analyses the *Diamond*, *MP3.com* and *Napster* cases. Next, the thesis highlights some legal and technological solutions to the current problems.

Ultimately the thesis concludes that the legal legacy left behind by these cases is unsatisfactory. Questions remain unanswered and it seems that a landmark ruling is necessary on the legal status of everyday practices such as 'space-shifting' and 'sampling'.

Furthermore, this thesis calls for the recording industry to consider cheaper and more secure alternatives to the current methods of distribution. If other more suitable alternatives are implemented successfully and the above legal questions answered decisively then a working business model compatible with the online environment could pave the way for the future, not only in the context of music but for all types of digital content.

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# Chapter 1 – Introduction

*“The problem's plain to see, too much technology...”*.<sup>1</sup>

## 1. Introduction

Until April 1999, the most common search term on the Internet was “sex”.<sup>2</sup> Now, the undisputed champion is the term “MP3”.<sup>3</sup> Unfortunately, although many of the MP3 files available on-line are copies authorised by artists, there are also a large number of pirated files that audiophiles post without artists’ permission.

This has led to a battle that may redefine the manner in which many people obtain copies of their favourite music. On one side stands the recording industry, seeking to protect its current distribution channels and to control the dissemination of its intellectual property over the Internet. On the other side, a group consisting of Internet mavens, some musical artists, and the ever-present ‘cyberpirates’, stands ready to exploit the Internet as a means to quickly and cheaply distribute and download songs.

In essence the advent of new technology has been “the catalyst for this struggle over the use of the Internet to distribute songs”.<sup>4</sup> New data compression technology, mainly in the form of MP3, combined with the Internet’s expanding global reach, has enabled anyone with access to computers not only to listen to music on their computers, but to exchange music files with other Internet users and to listen to that music on the go.

Such advancements in technology have always remained elusive to the law’s scrutiny. Understanding how to fairly apply traditional rules to new technology takes

<sup>1</sup> Styx, *Mr. Roboto* (Kilroy Was Here – A&M Records, 1983).

<sup>2</sup> B.J. Richards, *The Times They Are A-Changin’: A Legal Perspective On How The Internet Is Changing The Way We Buy, Sell, And Steal Music*, 7 J. Intell. Prop. L. 421 (2000) at 421.

<sup>3</sup> Doug Bedell, *The MP3 Wave: As Millions Download Music Off The Net, Piracy Enforcement Flounders*, The Dallas Morning News, July 27, 1999 <<http://www.dougbedell.com/mp3.htm>>.

<sup>4</sup> Paul Veravanich, *Rio Grande: The Mp3 Showdown At Highnoon In Cyberspace*, 10 Fordham Intell. Prop. Media & Ent. L.J. 433 (2000) at 435.



time as the impact, affect and use of emerging technology finds its place in society. The recent developments in digital technology, such as the Internet and MP3 compression pose such a problem to copyright law. Where once a tangible medium of expression, such as an audio cassette, yielded itself to easy regulation, now only a digital signal – a binary stream of ‘0s’ and ‘1s’ – exists.

In recent years the recording industry, in an attempt to control the unauthorised use of its works through the MP3 format, has taken action against three separate entities that it believes has contributed to the unauthorised use of its music. For one to say that the law has struggled to keep up with technological advances would be an understatement. Consequently, the courts have had to clarify and apply both old and new copyright law to deal with the new technology. This has led some to state that copyright, as it exists today, is dead and that radical reforms are necessary.

This paper will detail and critically analyse the court decisions in the ‘MP3 trilogy’; *RIAA v Diamond*, *UMG Recordings v MP3.com* and *A&M Records v Napster*. Such a discussion will also highlight any problems with the current state of copyright law and whether any action is required from the legislature. An important significance of such a discussion is that it provides a ‘taster’ for what will inevitably transpire with the online digital distribution of video in the future as and when it becomes more feasible.<sup>5</sup>

It must be noted from the outset that all the litigation involving these MP3 cases so far has taken place in the United States. Consequently, all case law, legislation and analysis focus purely on the US perspective. Limiting the discussion to US developments has been done for a number of reasons. Firstly, these three cases were the first of their kind to be litigated anywhere in the world. Secondly, although it would produce an interesting analysis, widening the scope to include other jurisdictions, for example the possible affect on European law, would not be possible to do within the work length available. As such, focusing on the first trio of cases in this developing area of law also has the advantage of allowing the underlying issues to be more fully examined.

The rest of this chapter will provide a background to music and technology, including who the main players are and what MP3 is. Next, in Chapter 2, I will introduce the basic concepts of US copyright law and the legislature's attempt at introducing legislation to deal with digital technology. Chapters 3 through to 5 will detail each of the cases in the MP3 trilogy and Chapter 6 through to 8 will critically analyse the respective decisions. Next, in Chapter 9, I will highlight some of the solutions, both legal and technological, that could be employed to deal with the current problems of digital distribution on the Internet. Chapter 9 will also conclude this paper.

## **2. Analogue and Digital Technology**

It is important to give a brief overview of music and technology to understand the present problems being faced by the recording industry.

By the early 1980s the pre-recorded music market had settled into two main formats – vinyl records and audio cassettes.<sup>6</sup> All these were in analogue format and with each listen the quality of the music stored on them gradually diminished.

The introduction of digital music occurred with the Compact Disc ('CD') in 1982. The technology that the CD introduced gave the maximum clarity in music reproduction. Digital technology means that data is represented in '0s' and '1s',<sup>7</sup> whereas the principal feature of analogue representations is that they are continuous.<sup>8</sup> Unlike analogue recordings, digital recordings do not diminish in sound quality with repeated playing.

At that time, a consumer wanting to own a copy of a popular song could either buy it on vinyl, cassette or CD, or duplicate a friend's copy on an analogue cassette recorder. Such analogue home duplication was not considered much of a threat at

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<sup>5</sup> See William Sloan Goats, et al., *Streaming Into The Future: Music And Video Online*, 20 Loy. L.A. Ent. L. Rev. 285 (2000) at 286.

<sup>6</sup> RIAA, *Audio Technologies - The Digital Age* <<http://www.riaa.org/Audio-History-3.cfm>>.

<sup>7</sup> Webopedia, *Digital* <<http://www.webopedia.com/TERM/d/digital.html>>.

<sup>8</sup> Webopedia, *Analog* <<http://www.webopedia.com/TERM/A/analog.html>>.

that time. Analogue duplication techniques lead to degradation in quality, strongly noticeable when compared to the pristine digital sound of the CD.<sup>9</sup>

The then recently introduced CDs were not equipped with any kind of copy protection technology to protect against the unauthorised copying and distribution of copyrighted music. What the recording industry at the time did not realise was that the large scale influx of digital music in the CD format, without the appropriate copy protection technology, would in the future pose a serious threat.

Indeed, the complacency of the recording industry was soon replaced by a ‘chilly fear’ when in 1987 manufacturers introduced Digital Audio Tape (‘DAT’).<sup>10</sup> This took digital technology one step further. Not only did it allow music to be stored in a digital format, like the CD, but it also allowed a consumer to reproduce music in a digital format. Consequently allowing a consumer to create “a flawless reproduction of the crystal clear sound contained on a CD, with no quality lost from generation to generation”.<sup>11</sup>

Fortunately for the recording industry, the DAT did not go over well with consumers, settling only into a small niche among professional musicians and sound engineers. Two years later, Sony’s marketing campaign for a new ‘recordable’ digital “mini disc” similarly flopped, showing that consumers were not quite ready to overhaul their music collections again with yet another format.<sup>12</sup>

To most it seemed that “the angel of music piracy had passed over the music industry, leaving business undisturbed”.<sup>13</sup> In reality, the worst had yet to come.

### **3. The Digital Revolution and The Internet**

During this time computers were becoming increasingly popular. Computers are programmable electronic machines based upon digital technology that respond to

<sup>9</sup> Robert T. Baker, *Finding A Winning Strategy Against The MP3 Invasion: Supplemental Measures The Recording Industry Must Take To Curb Online Piracy*, 8 UCLA Ent. L. Rev. 1 (2000) at 2.

<sup>10</sup> RIAA, *Audio Technologies - The Digital Age* <<http://www.riaa.org/Audio-History-3.cfm>>.

<sup>11</sup> Robert T. Baker, op.cit at 3.

<sup>12</sup> Barry Fox, *Big Screen To Little Disc*, London Times, August 19, 1994.

<sup>13</sup> Robert T. Baker, op.cit at 4.

instructions and execute programs.<sup>14</sup> They are generally classified by their size and power, and a small, single-user computer based on a microprocessor is called a Personal Computer ('PC').<sup>15</sup> It was the PC that was becoming increasingly popular for individual home users and was being used for such things as word-processing, accounting, spreadsheets and playing games.<sup>16</sup>

In the early 1990s, the rise of another technology was increasing the popularity of PCs – the Internet. The Internet is “a global network connecting millions of computers”.<sup>17</sup> For the first 20 years or so it saw only esoteric use until Internet Service Providers ('ISPs') such as America Online made it more accessible to consumers.<sup>18</sup>

Essentially, the Internet allows for the transfer of digital files. These transfers create exact copies of the original and can be digitally delivered to thousands of Internet users with a few clicks of the mouse.

Another major event in the proliferation of the Internet was the creation of the World Wide Web (the 'web'). The web was invented by Tim Berners-Lee in 1989 and presented a more user-friendly way to use the Internet.<sup>19</sup> It allows for a system of documents, formatted in a script called HyperText Markup Language, that “supports links to other documents, as well as graphics, audio, and video files”.<sup>20</sup>

All this made the Internet very popular and by 1994, users could easily manipulate Internet interfaces such as e-mail, the web, and Bulletin Board Systems to exchange digital files with one another. It did not take these users long to start illegally exchanging intellectual property, inducing copyright holders into litigation.<sup>21</sup>

While such litigation illustrated how easily the Internet could be used to pirate text and graphics, musical copyright holders could still rest easily. By late 1995, the

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<sup>14</sup> Webopedia, *Computer* <<http://www.webopedia.com/TERM/c/computer.html>>.

<sup>15</sup> *ibid.*

<sup>16</sup> Webopedia, *Personal Computer* <[http://www.webopedia.com/TERM/P/personal\\_computer.html](http://www.webopedia.com/TERM/P/personal_computer.html)>.

<sup>17</sup> Webopedia, *Internet* <<http://www.webopedia.com/TERM/I/Internet.html>>.

<sup>18</sup> <<http://www.aol.com/>>.

<sup>19</sup> World Wide Web Consortium, *Tim Berners-Lee* <<http://www.w3.org/People/Berners-Lee/>>.

<sup>20</sup> Webopedia, *World Wide Web* <[http://www.webopedia.com/TERM/W/World\\_Wide\\_Web.html](http://www.webopedia.com/TERM/W/World_Wide_Web.html)>.

<sup>21</sup> e.g. see *Playboy Enterprises, Inc. v. Frena*, 839 F. Supp. 1552 (M.D. Fla. 1993).

fastest modem would have taken hours to transmit a pop-song-length digital sound file taken off of a standard audio CD. This was an inconvenience to even the most patient of infringers.<sup>22</sup>

So for the time being large-scale digital music piracy remained thwarted, not by the law, but by the steep time and cost of downloading data on the Internet.

#### **4. The MP3 Music Format**

In their search for a more efficient and practical song swapping method “online audiophiles soon disinterred a long-lost treasure”.<sup>23</sup>

In 1988, representatives from several international corporate and academic organisations founded the Moving Picture Experts Group (‘MPEG’), a working group in charge of “the development of standards for coded representation of digital audio and video”.<sup>24</sup> This group has developed many multimedia standards since.

The German engineering firm Fraunhofer IIS-A, concentrating on audio files, then developed the most advanced format in the series – MPEG 1, Audio Layer 3 – more notoriously known as ‘MP3’.<sup>25</sup> By eliminating ‘noise’ supposedly imperceptible by the human ear, MP3 is able to compress the digital music on an audio CD at a 12:1 ratio. The result is a near CD-quality digital sound file at a fraction of its original size.

The rediscovery of MP3 in the late nineties coincided with a widespread increase in Internet connection speed.<sup>26</sup> Homes, businesses, libraries and universities were adopting faster internet connections. This combined with the fact that MP3 is an open, non-proprietary standard meant that anyone could use the MP3 compression format to compress their music files and rapidly transmit them over the Internet.

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<sup>22</sup> Robert T. Baker, op.cit at 5.

<sup>23</sup> ibid at 5.

<sup>24</sup> MPEG, *The MPEG Home Page* <<http://mpeg.telecomitalia.com/>>.

<sup>25</sup> Fraunhofer Institute for Integrated Circuits IIS - Applied Electronics, *MPEG Audio Layer-3* <<http://www.iis.fraunhofer.de/amm/techinf/layer3/index.html>>.

<sup>26</sup> Robert T. Baker, op.cit at 6.

The recording industry wasn't so fortunate this time, and neither consumer trends nor technical obstacles would save them. Consequently, the MP3 compression format soon became the online audiophile's preferred method of distribution.

## **5. The Recording Industry**

### **A. The Structure**

Traditionally, the sale of music to consumers has been dominated by a small group of large record labels that sell directly to large retailers or through large distributors to local retailers. This small group controls approximately eighty-percent of the popular music industry and is known as the 'Big Five'.

The 'Big Five' consists of BMG Entertainment, EMI Group, Sony Music, Universal Music Group, and Warner Music Group. These labels possess the money and marketing resources necessary to promote established talent and to introduce new artists to the marketplace.

However, even the largest record label has practical limits on its ability to discover and support new artists. As a result, many talented musicians never have their music published or promoted by an established record company. The smaller 'independent' record labels provide an alternative way for new artists to record and distribute their music.

Overall, the music industry is enormous and a very valuable business. On a world-wide basis, the value of recorded music sales in 2001 was US\$33.7 billion.<sup>27</sup> These numbers are expected to increase with the proliferation of legitimate Internet music distribution.

### **B. The Recording Industry Association of America**

The Recording Industry Association of America ('RIAA') is a not-for-profit trade group formed fifty years ago to foster a business and legal climate that supports and



promotes its “members’ creative and financial vitality”.<sup>28</sup> The RIAA represents the Big Five, as well as 250 smaller labels. Its members are responsible for producing approximately ninety percent of all albums released in the United States.<sup>29</sup>

The RIAA, as a trade group, also helps fight against piracy. Indeed, traditional piracy is a very large concern. The value of the global pirate market in 2001 was estimated to be US\$4.3 billion.<sup>30</sup> Furthermore, according to the International Federation of the Phonographic Industry (‘IFPI’) the global pirate music market totalled 1.9 billion units in 2001. This means that almost 40% of all CDs and cassettes sold around the globe are pirated copies – the highest proportion ever recorded by IFPI.<sup>31</sup>

As such it seems that the recording industry has every reason to be concerned about music piracy.

## **6. Music and The Internet Today**

### **A. Music and the Internet**

Today, PCs, the Internet and MP3s are as popular as ever. It was estimated that the one billionth PC was shipped in April 2002.<sup>32</sup> It took 25 years to reach this milestone, and the same companies that reported this achievement believe that the next billion computers will sell in just six years – less than a quarter of the time it took to sell the first billion.

The popularity of the Internet has also reached a significant level. It was estimated that the number of Internet users has reached over 600 million world-wide, and this figure is set to increase as more people come to grips with computer technology.<sup>33</sup> With the advent of broadband technology and its increasing accessibility, the speed of

<sup>27</sup> BBC News, *Global music sales drop*, 16 April, 2002 <<http://news.bbc.co.uk/1/hi/entertainment/music/1932344.stm>>.

<sup>28</sup> RIAA, *About Us - Who We Are* <<http://www.riaa.org/About-Who.cfm>>.

<sup>29</sup> *ibid.*

<sup>30</sup> IFPI, *Music Piracy Report 2002* <<http://www.ifpi.org/site-content/antipiracy/piracy2002.html>>.

<sup>31</sup> *ibid.*

<sup>32</sup> Intel, *Intel Celebrates The Industry's 1 Billionth PC* <<http://www.intel.com/pressroom/archive/releases/20020701corp.htm>>.

<sup>33</sup> Nua Internet, *How Many Online?* <[http://www.nua.ie/surveys/how\\_many\\_online/index.html](http://www.nua.ie/surveys/how_many_online/index.html)>.

Internet connections is set to increase further to phenomenal speeds. In turn meaning that downloading a file would take less time.

All-in-all these factors mean that people are using the Internet more, and are able to do a lot more with their PCs. After the rediscovery of MP3, this for some time now has included using their PCs and Internet connections to pursue their musical interests, and both the facilities and opportunities are readily available.

PCs now come with CD-ROM drives and soundcards as standard. These allow a user to play and listen to standard audio CDs on their machines. Furthermore, using software freely available on the Internet a user can copy music stored on an audio CD to a digital music file on the hard-drive of their PC.<sup>34</sup> This process is colloquially called 'ripping'.<sup>35</sup> The digital music file can then be compressed using the MP3 compression format and digitally transmitted to others over the Internet or uploaded to a web site from which visitors can download the MP3 file.

Once downloaded a MP3 can be played back on the PC using MP3 player software. Furthermore, once a MP3 file has been stored on the user's hard-drive, it can be copied onto an audio CD using readily available CD-writer drives. This process is colloquially called 'burning' and 'burning software' is freely available on the Internet.<sup>36</sup>

This ability to transfer music fast, efficiently and so readily has led to a very popular and thriving movement of music distribution on the Internet mainly in the MP3 format. Software, often available free of charge, has helped enable the MP3 standard to quickly establish itself as the preferred format of online music web sites.<sup>37</sup>

Furthermore, like CDs, MP3 files do not contain copyright management information. Thus, there is no restriction on its use in the copying or distribution of recordings. The problem however, is that most of the MP3 files available on the Internet are not authorised for such use.

<sup>34</sup> e.g. a free Windows program called Musicmatch Jukebox allows one to rip music from a CD onto a PC <<http://www.musicmatch.com/>>.

<sup>35</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) ("*Napster III*") at 1011.

<sup>36</sup> Webopedia, *Burn* <<http://www.webopedia.com/TERM/B/burn.html>>.

<sup>37</sup> e.g. see <<http://software.www.mp3.com/software/>>.

## B. Internet Music Piracy

Before the Internet, consumers who wished to hear a new song or music album at home had no choice but to go to a record store and buy it. These purchases allowed the copyright owner to control the distribution of the copyrighted works and to financially benefit from his or her creation.<sup>38</sup>

However, the digital distribution of music over the Internet is threatening to change this well-established system.<sup>39</sup> Now music enthusiasts are able to transfer MP3 files freely without the consent of or payment to the copyright owners. Furthermore, because of the lack of regulation of the Internet and the consequential anonymity of its use, these audiophiles can freely trade without fear of any repercussions.<sup>40</sup>

Whereas the previous physical format of music storage allowed easy control, the intangible nature of a digital music file with its lack of any physical transfer means that copyright holders can no longer control the use of their music. Consequently, the illegal distribution of music on the Internet is a popular phenomena.

True rates of Internet music piracy are hard to estimate because Internet piracy is a covert illegal activity that often goes undetected. Even with the unreliable nature of the statistics on Internet piracy, two things are certain – Internet piracy is happening and it is costing the Big Five handsomely.<sup>41</sup>

The IFPI estimates there are approximately 200,000 Internet sites hosting or linking to some 100 million unauthorised recorded music files.<sup>42</sup> Further, it was estimated that in 2001, approximately 99% of music files available online were unauthorised. Accordingly, Internet piracy is a valid concern for copyright owners and law-makers.

The RIAA has expended substantial energy over the last few years to identify and combat Internet-based music piracy. One of the RIAA's more aggressive anti-

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<sup>38</sup> The Economist, *The Big Five Hit the Web*, May 8, 1999 at 63.

<sup>39</sup> William Sloan Coats, et al., op.cit at 285.

<sup>40</sup> The Internet has a decentralised structure therefore regulation is difficult.

<sup>41</sup> RIAA, *Anti-Piracy - Introduction* <<http://www.riaa.org/Protect-Online-1.cfm>>.

<sup>42</sup> IFPI, *Music Piracy Report 2002* <<http://www.ifpi.org/site-content/antipiracy/piracy2002.html>>.

Internet-piracy strategies, has been to send thousands of cease-and-desist letters to sites containing unauthorised musical works available to download.<sup>43</sup> However, as a result of campaigns like this illegal sound recordings are becoming harder to find.

## **7. Legitimate Online Music Distribution**

For sometime now the Internet has been used to buy and sell a variety of goods and services. This is no less so for the buying and selling of music mainly in audio CD format. Instead of visiting a music store on the high street, there are currently hundreds of music retail sites that allow consumers to purchase CDs from the convenience of their armchair. One of the most popular being Amazon.com.<sup>44</sup>

However, this has not particularly posed any new problems for the music industry. Even though this music is being sold on the Internet it still involves the physical sale of a legitimate audio CD which is subsequently delivered to the consumer's home address. In essence it is no different from phoning your local music store and asking them to deliver to you a copy of the latest Tupac Shakur album.

All the controversy however arises from the use of the Internet to illegally transmit music in a digital file such as MP3. Putting these piracy issues aside, the legitimate online distribution of music does have great potential and many advantages. The Internet provides artists with another avenue to disseminate their works while also enabling consumers to sample various recordings with ease.<sup>45</sup>

Unfortunately, the record companies have resisted the new techniques for producing and distributing music, and while they hold out the situation worsens for them. To the Big labels, MP3 and online distribution seems like risky business but to the smaller, independent labels it is almost like a 'godsend'.

Independent labels and artists favour the use of the MP3 technology. MP3s are a convenient way for unknown artists to get their music out for people to hear.<sup>46</sup> It

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<sup>43</sup> Marc Pollack, *RIAA Says It's Crashing Net's Illegal Music Sites*, Hollywood Reporter, August 18, 1999, at 13.

<sup>44</sup> <<http://www.amazon.com>>.

<sup>45</sup> Paul Veravanich, op.cit at 435.

<sup>46</sup> The Economist, *A Note of Fear*, October 31, 1998, at 68.

gives them a voice among the giants so that they can be heard without being overshadowed by the big recording labels and stars.<sup>47</sup> MP3 gives unknown bands, which have little or no chance of making it with the big labels, an opportunity to make it by themselves.

Overall, this phenomenon of online music distribution has the recording industry worried. While several have embraced this new technology as a way of promoting unknown or unsigned bands, many artists oppose this technology because it enables Internet piracy and deprives artists of control over the reproduction and distribution of their music.<sup>48</sup> Providing their music in an unsecured digital audio file format for others to distribute and copy just seems to encourage piracy.

Regardless, it seems that the legitimate online distribution of music is big business and will substantially increase over the next few years. Indeed, it has been estimated that legitimate downloaded music will be worth US\$635 million by 2005.<sup>49</sup>

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<sup>47</sup> The Economist, *The Big Five Hit the Web*, May 8, 1999, at 64.

<sup>48</sup> Reuters, *Big Label Embraces MP3*, *Wired News*, November 4, 1998 <<http://www.wired.com/news/culture/0,1284,16034,00.html>>.

<sup>49</sup> Bloomberg News, *Report: Net music sales to hit \$5.2 billion in 2005*, CNET News.com, November 23, 1999 <<http://news.com.com/2100-1023-233444.html>>.

## Chapter 2 – Copyright Law and the Digital Age

*“The first thing we do, let’s kill all the lawyers”.*<sup>1</sup>

In order to explore and analyse the cases in the MP3 trilogy, a brief overview of the relevant law and other developments is required.

### **1. Background**

Despite the ease of music piracy on the Internet, copyright holders are not naked and completely unprotected. They do have some legal protection, “but the efficacy of that legal protection is in question”.<sup>2</sup> The only legal recourse available to copyright holders, comes from the United States Copyright Act 1976 (‘CA’).<sup>3</sup>

### **2. Basic rights**

The statutory framework for copyright law grants copyright holders a bundle of valuable rights in regards to their work. The exclusive rights that copyright holders possess include the right to reproduce the work, the right to prepare derivative works, the right to distribute copies of the work, the right to perform the work publicly, the right to display the copyrighted work publicly, and the right to perform sound recordings by means of a digital audio transmission.<sup>4</sup>

Copyright protection subsists “in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device”.<sup>5</sup>

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<sup>1</sup> Dick the Butcher in William Shakespeare’s *King Henry VI*, Part 2, Act 4, Scene 2.

<sup>2</sup> Kristine J. Hoffman, *Fair Use Or Fair Game? The Internet, Mp3 And Copyright Law*, 11 Alb. L.J. Sci. & Tech. 153 (2000) at 163.

<sup>3</sup> 17 U.S.C. § 101 et. seq. Unless otherwise stated all references to legislation in this thesis are to the *Copyright Law of the United States of America and Related Laws Contained in Title 17 of the United States Code*.

<sup>4</sup> § 106.

<sup>5</sup> § 102(a).

With respect to music, works of authorship includes musical works, including any accompanying words, dramatic works, including any accompanying music, motion pictures and other audio-visual works, and sound recordings.<sup>6</sup> Therefore, a recorded song involves two distinct copyrights. The musical work copyright protects the music and lyrics themselves, whereas the sound recording copyright protects a specific recording of the song.

Fixation occurs when the embodiment of a work “is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration”.<sup>7</sup> This definition is wide enough to cover music stored on CDs and in the MP3 format.

### **3. Infringement**

Section 501(a) CA prescribes that a copyright is infringed when any of the copyright holder’s exclusive rights are violated. There are three basic forms of copyright infringement; direct, contributory and vicarious liability.

#### **A. Direct Liability**

An individual is directly liable for copyright infringement if he has copied material protected by a valid copyright.<sup>8</sup> To establish copyright infringement, two elements must be proved: “(1) ownership of a valid copyright; and (2) copying of constituent elements of the work that are original”.<sup>9</sup> It is the copyright owner’s burden to prove this, though he does not need to prove the defendant’s intent or knowledge of the infringement.<sup>10</sup>

There are two major exceptions to direct copyright infringement, the common law ‘fair use doctrine’ and the Audio Home Recording Act.

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<sup>6</sup> § 102(a)(2), (3), (6), (7).

<sup>7</sup> § 101.

<sup>8</sup> See Donna M. Lampert et al., *Overview of Internet Legal and Regulatory Issues*, Prac. L. Inst., 544 PLI/Pat 179 (1998) at 223.

<sup>9</sup> *Feist Publishing Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991) at 361.

<sup>10</sup> Jennifer E. Markiewicz, *Seeking Shelter From The Mp3 Storm: How Far Does The Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 CommLaw Conspectus 423 (1999) at 427.

## B. Contributory Liability

Contributory liability “originates in tort law and stems from the notion that one who directly contributes to another’s infringement should be held accountable”.<sup>11</sup> A party is contributorily liable, if it has knowledge or reason to know of the infringing conduct of another, and induced, caused, or materially contributed to this conduct.<sup>12</sup>

Contributory infringement can be based on personal conduct that forms part of or furthers the infringement, or the contribution of machinery or goods that provide the means to infringe. In the absence of a physical product that is the subject of the alleged infringement, “the extent of control exercised by the defendant over the third party’s means of infringement” is considered.<sup>13</sup> The greater the degree of control, the greater the likelihood that contributory infringement will be found.

For example, in *Fonovisa* swap meet operators were held contributorily liable for the infringing activities of independent vendors who were selling copyrighted music recordings without permission.<sup>14</sup> The direct liability of the vendors was established and the court needed to determine whether the operators’ participation level was enough to warrant contributory infringement. According to the Ninth Circuit, providing the site and facilities where the provider knew infringing activity was occurring was sufficient to create contributory liability. Though this case did not involve the Internet, it has influenced the legal analysis of contributory liability on the web.<sup>15</sup>

An important limitation on a claim of contributory liability is the ‘staple article of commerce’ doctrine.

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<sup>11</sup> *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (“*Fonovisa*”) at 264.

<sup>12</sup> *Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159 (2d Cir. 1971) (“*Gershwin*”) at 1162.

<sup>13</sup> *Lockheed Martin v. Network Solutions*, 194 F.3d 980 (9th Cir. 1999) at 984.

<sup>14</sup> *Fonovisa*.



### C. Vicarious Liability

Vicarious liability for copyright infringement is imposed where the defendant has the right and ability to control the infringer's actions and receives a direct financial benefit.<sup>16</sup>

Unlike contributory liability, vicarious liability may be imposed even if a defendant has no direct knowledge of the infringing activity.<sup>17</sup> The courts have developed the concept of vicarious liability in an effort to “fashion a principle for enforcing copyrights against a defendant whose economic interests were intertwined with the direct infringer's, but who did not actually employ the direct infringer”.<sup>18</sup>

An example of vicarious liability is what was done by Cherry Auction in *Fonovisa*. The *Fonovisa* court found Cherry Auction to be vicariously liable in addition to having engaged in contributory infringement because it “promoted the swap meet and controlled the access of customers to the swap meet area”.<sup>19</sup> Furthermore, Cherry Auction derived “substantial financial benefits from admission fees, concession stand sales and parking fees, all of which flow directly from customers who want to buy the counterfeit recordings at bargain basement prices”.<sup>20</sup>

### 4. Fair use

When someone other than the copyright holder makes fair use of the work, the copyright owner's exclusive rights do not preclude the infringement. As long as a person uses the work in a reasonable manner, such as for criticism, teaching, or research, the infringement is proper and legal. Once the copyright holder proves an infringement, the defendant may assert the fair use defence.

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<sup>15</sup> See Timothy L. Skelton, *Internet Copyright Infringement and Service Providers: The Case for a Negotiated Rulemaking Alternative*, 35 San Diego L.Rev. 219 (1998) at 252.

<sup>16</sup> See *Religious Technology Center v. Netcom*, 907 F.Supp 1361 (N.D. Cal. 1995) (“*Netcom*”) at 1368.

<sup>17</sup> Ariel Berschadsky, *RIAA v. Napster: A Window Onto The Future Of Copyright Law In The Internet Age*, 18 J. Marshall J. Computer & Info. L. 755 (2000) at 766.

<sup>18</sup> *Fonovisa* at 262.

<sup>19</sup> *ibid.*

<sup>20</sup> *ibid.*

Section 107 CA provides a non-exhaustive list of factors that one should consider when determining if the reproduction of a copyrighted work is a fair use. These factors include:

- “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work”.<sup>21</sup>

The fair use factors are interrelated and are not to be “treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright”.<sup>22</sup> In addition, no greater weight should be given to any one factor over the others. If the copies are used for a commercial purpose, that is, the infringer is making copies to earn a profit, a presumption against fair use arises.

A determination of fair use is made on a case-by-case basis. In addition to those who serve the public interest, home users have also been allowed the fair use of copyrighted works in certain circumstances. For example, in *Sony Corporation of America v. Universal City Studios, Inc.*, the United States Supreme Court held that the time-delayed video taping of television programs by home consumers constituted fair use.<sup>23</sup>

## **5. The Staple Article of Commerce Doctrine**

The doctrine of ‘substantial non-infringing use’ or the ‘staple article of commerce’ doctrine was first applied to copyright law in the landmark Supreme Court case of *Sony*.<sup>24</sup>

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<sup>21</sup> §107.

<sup>22</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) (“*Campbell*”) at 578.

<sup>23</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (“*Sony*”) at 449-50.

<sup>24</sup> *Sony*.

The *Sony* case involved a dispute between Sony, manufacturers of Betamax machines, and the motion picture industry. These Betamax machines used VideoCassette Recorder ('VCR') technology to allow users to record television broadcasts onto magnetic tapes. The motion picture industry was tremendously concerned with the advent of this technology, fearing their revenues would be destroyed if consumers could so readily copy televised broadcasts. Rather than pursue the individual infringers, however, the motion picture industry elected to pursue a contributory infringement claim against Sony.

The Supreme Court, in a five to four decision, invoked the 'staple article of commerce' doctrine to find that the makers of VCRs were not contributorily infringing the copyrights of the movie industry. The Supreme Court first reviewed the case law on contributory and vicarious copyright infringement, and found no prior case imposing liability based solely on the sale of equipment that customers might use to infringe.

United States patent law, in contrast, specifically contemplates such liability, but exempts any staple article or commodity of commerce suitable for substantial non-infringing use.<sup>25</sup> The Supreme Court found the rationale behind this rule applicable to the copyright context and thus extended the 'staple article of commerce' doctrine to copyright law.

The Supreme Court in *Sony* also held that unauthorised 'time-shifting' – the recording of television broadcasts for later home viewing – constituted a fair use under copyright law.<sup>26</sup> Accordingly, because the VCR had a "substantial noninfringing use", the Supreme Court held that Sony was not contributorily infringing the copyrights of the movie industry.<sup>27</sup>

One important by-product of the *Sony* decision was that copyright holders would have a difficult time bringing a successful contributory infringement action against manufacturers of copying technology that has a substantially non-infringing 'fair use'.

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<sup>25</sup> 35 U.S.C. § 271(c).

<sup>26</sup> *Sony* at 447-56.

<sup>27</sup> *ibid* at 442.

## **6. The Audio Home Recording Act of 1992**

### **A. Background**

Copyright law worked well at protecting the music industry's rights until technology began to make it easier for the average person to copy original recordings. When US copyright law was written in 1976, records and eight tracks were the only form of recordings available to the public. Without the aid of expensive equipment a person could not copy the music.

Soon after companies developed technology such as the DAT that enabled consumers to make digital copies of audio recordings.<sup>28</sup> Unlike the previous analogue tape technology, digital recording technology presented a serious threat to the music industry.

The recording industry feared that the availability of inexpensive, near-perfect copies of musical recordings would discourage consumers from purchasing legitimate recordings and encourage music piracy. As such, the recording industry knew that products like the DAT could severely diminish the revenues of the music corporations and the royalties of the artists.

The record companies responded by suing Sony, a manufacturer of the DAT.<sup>29</sup> The parties eventually settled and in response to industry lobbying for protection from this new threat, the US Congress created and enacted the Audio Home Recording Act ('AHRA') embodied in Chapter 10 of the CA.<sup>30</sup> The AHRA was signed into law on October 28 1992 and attempted to make the law more applicable to modern technology.

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<sup>28</sup> See Chapter 1.

<sup>29</sup> See *Cahn v. Sony Corp.*, 90 Civ. 4537 (S.D.N.Y. 1990).

<sup>30</sup> § 1001.

## B. Ambit

To be subject to the AHRA, a device must be a ‘digital audio recording device,’ which the AHRA defines through a set of nested definitions.

The AHRA first defines a ‘digital audio recording device’ as “any machine or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the digital recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a digital audio copied recording for private use ...”.<sup>31</sup>

A ‘digital audio copied recording’ is defined as “a reproduction in a digital recording format of a digital musical recording, whether that reproduction is made directly from another digital musical recording or indirectly from a transmission”.<sup>32</sup>

The AHRA defines a ‘digital musical recording’ as “a material object (i) in which are fixed, in a digital recording format, only sounds, and material, statements, or instructions incidental to those fixed sounds, if any, and (ii) from which the sounds and material can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device”.<sup>33</sup>

A ‘digital musical recording’ does not include: “a material object – (i) in which the fixed sounds consist entirely of spoken word recordings, or (ii) in which one or more computer programs are fixed, except that a digital recording may contain statements of instructions constituting the fixed sounds and incidental material, and statements or instructions to be used directly or indirectly in order to bring about the perception, reproduction, or communication of the fixed sounds and incidental material”.<sup>34</sup>

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<sup>31</sup> § 1001(3).

<sup>32</sup> § 1001(1).

<sup>33</sup> § 1001(5)(A).

<sup>34</sup> § 1001(5)(B).

### C. Purpose

The US Congress's passage of the AHRA "lent more definition" to the 'fair use' doctrine.<sup>35</sup> The AHRA also provides broad immunity from civil actions alleging copyright infringement. It provides that:

"No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings".<sup>36</sup>

This language effectively immunises manufacturers or importers of devices which fall under the AHRA from any direct or contributory infringement claims under any copyright provision outside the AHRA. Furthermore, it resolves the prior uncertainty regarding the legal ramifications of home taping.

The AHRA effectively prohibits the importation, manufacture, or distribution of 'digital audio recording devices' unless two requirements are met. First, a 'digital audio recording device' must employ a Serial Copyright Management System. Second, any person importing, distributing, or manufacturing a 'digital audio recording device' must pay a royalty for each device sold.

### D. Serial Copyright Management System

The AHRA delineates defence mechanisms to copying digital recordings. In order to prevent non-copyright holders from infringing upon the exclusive rights of the copyright holder, the law requires the incorporation of a Serial Copy Management System ('SCMS') or equivalent into every 'digital audio recording device' that is imported, manufactured or distributed.<sup>37</sup> Such a system must send, receive, and act

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<sup>35</sup> Ariel Berschadsky, op.cit at 765.

<sup>36</sup> § 1008.

<sup>37</sup> See § 1002(a).

upon information about the generation and copyright status of the files that the digital audio recording device plays.<sup>38</sup>

This means that every 'digital audio recording device' sold must in some way inhibit or regulate the copying of recordings from duplicates of original recordings.<sup>39</sup> More simply, once one copy is made of the original, the recording device should not allow copies to be made from that copy. In theory this regulates the copying and illegal distribution of digital audio recordings.

### **E. Mandatory Royalty Payments**

As copyright law allows a person to make one copy of an original work for back-up purposes, the recording industry sought additional safe guards against piracy, fearing that the provision of the law would be abused and that it would not be protected from piracy at all.<sup>40</sup>

As a result, the AHRA contains a provision requiring the mandatory payment of royalties for every 'digital audio recording device' manufactured or sold.<sup>41</sup>

## **7. The Digital Millennium Copyright Act of 1998**

### **A. Background**

When the Internet began its dramatic increase in popularity, digital music had existed in the form of CDs for nearly a decade. In addition, the enactment of the AHRA produced a satisfactory answer to the debates over home recording using the newly introduced DAT. However, Congress and the music industry failed to foresee the extensive role that the PC and the Internet would play in the recording and playback of music.

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<sup>38</sup> See § 1002(a)(2).

<sup>39</sup> Kristine J. Hoffman, *op.cit* at 167.

<sup>40</sup> See Jason Chervokas, *Internet CD Copying Tests Music Industry*, N.Y. Times, April 6, 1998 at D3.

<sup>41</sup> See § 1003-1007.

This continued expansion of the Internet brought ISPs increasingly into conflict with copyright holders. “Unless copyright law was modernized, growth of the Internet would be hampered because ISPs could not constantly police the huge amount of information that is stored or passes through their networks”.<sup>42</sup>

In response to this situation, in 1998 the US Congress passed the Online Copyright Infringement Liability Limitation Act, which was incorporated as Title II of the Digital Millennium Copyright Act (‘DMCA’). The DMCA was signed into law on October 28 1998 and amended the CA to implement the World Intellectual Property Organisation (‘WIPO’) Copyright Treaty and the WIPO Performances and Phonograms Treaty.

A detailed analysis of the DMCA is beyond the scope of this paper, but a brief overview of the relevant sections is justified.<sup>43</sup>

## **B. Ambit**

Title II retains the traditional elements required to prove copyright infringement. However, an ISP found to be contributorily or vicariously liable for copyright infringement can avoid monetary penalties and will not have its operations shut down if it can prove that its activities are protected under Title II.

The only penalty that can be imposed on such an ISP is a narrow injunction to block access to individual infringing users.<sup>44</sup> In determining whether or not to impose an injunction, the court must weigh the financial burden of the ISP against the harm suffered by the copyright owner if no action is taken to remove the infringing material or activity.<sup>45</sup>

An ISP proves that it merits Title II limited liability protection by demonstrating that it is, in fact, a ‘service provider’ as defined by the statute, and also that it engages in at least one of four protected functions detailed in subsections 512(a)-(d).

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<sup>42</sup> Ariel Berschadsky, *op.cit* at 767.

<sup>43</sup> For a more detailed analysis of the DMCA see Jennifer E. Markiewicz, *op.cit*.

<sup>44</sup> § 512(j)(1)(B).



## 1. Title II Service Provider Status

The DMCA provides two definitions for a ‘service provider’. For purposes of the first safe harbour under subsection 512(a), a ‘service provider’ is any “entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received”.<sup>46</sup>

The definition is broader for the next three safe harbours detailed under subsections 512(b)-(d). For these safe harbours “the term ‘service provider’ means a provider of online services or network access, or the operator of facilities therefor”, and includes a service provider under the first safe harbour.<sup>47</sup>

## 2. Title II Functional Safe Harbours

### (a) Subsection 512(a) – Transitory Digital Network Communications

Subsection 512(a) limits liability “for infringement of copyright by reason of the provider’s transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections”.<sup>48</sup>

This protection is only available if, “(1) the transmission of the material was initiated by or at the direction of a person other than the service provider; (2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider; (3) the service provider does not select the recipients of the material except as an automatic response to the request of another person; (4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained

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<sup>45</sup> § 512(j)(2)(A)-(D).

<sup>46</sup> § 512(k)(1)(A).

<sup>47</sup> § 512(k)(1)(B).

<sup>48</sup> § 512(a).

on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and (5) the material is transmitted through the system or network without modification of its content”.<sup>49</sup>

(b) Subsection 512(b) – System Caching

Limited liability is granted to a service provider that temporarily stores material on its servers in order to provide quick and easy access by its users.<sup>50</sup> In order to qualify for this form of limited liability, the service provider must subject its users to the same conditions of access as the originating site would have imposed.<sup>51</sup> The service provider must also meet a number of other conditions to be able to qualify for the system caching limited liability.<sup>52</sup>

(c) Subsection 512(c) – Information Residing on Systems or Networks at Direction of Users

Limited liability is granted to a service provider that stores copyright infringing material on its system at the behest of a third party, as long as the service provider: (1) does not have actual knowledge or awareness that the material is infringing; (2) upon obtaining such knowledge or awareness acts expeditiously to remove, or disable access to, the information; (3) does not receive a financial benefit directly attributable to the infringing activity; and (4) upon receiving notification of the infringing activity or information, responds expeditiously to remove or disable access to the relevant material.<sup>53</sup>

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<sup>49</sup> § 512(a)(1)-(5).

<sup>50</sup> § 512(b)(1)-(2).

<sup>51</sup> § 512(b)(2)(D).

<sup>52</sup> § 512(b)(2).

<sup>53</sup> § 512(c)(1).

## (d) Subsection 512(d) – Information Location Tools

Information location tools are essential to the operation of the Internet because without them, users would not be able to find the information they need. In an effort to promote their development, limited liability is granted to a service provider “referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link”.<sup>54</sup>

This is only if the service provider:

- “(1)(A) does not have actual knowledge that the material or activity is infringing;
- (B) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
- (C) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;
- (2) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and
- (3) upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity, except that, for purposes of this paragraph, the information described in subsection (c)(3)(A)(iii) shall be identification of the reference or link, to material or activity claimed to be infringing, that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate that reference or link”.<sup>55</sup>

## 3. Independent Analysis of Functions

The DMCA provides that a service provider’s functions must be analysed independently. Referring to section 512, subsection 512(n) of the DMCA states:

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<sup>54</sup> § 512(d).

<sup>55</sup> § 512(d)(1)-(3).

“Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section. Whether a service provider qualifies for the limitation on liability in any one of those subsections shall be based solely on the criteria in that subsection and shall not affect a determination of whether that service provider qualifies for the limitations on liability under any other such subsections”.<sup>56</sup>

#### 4. Threshold Requirements for Service Providers

For a service provider to benefit from any of the four liability limitations created by the DMCA, the service provider must meet the threshold requirements.

A service provider must ensure it “(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers; and (B) accommodates and does not interfere with standard technical measures”.<sup>57</sup>

### **8. The Stage Is Set**

As both the relevant background and law has been detailed the stage is now set to start exploring the cases in the ‘MP3 Trilogy’.

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<sup>56</sup> § 512(n).

<sup>57</sup> § 512(i)(1).

## **Chapter 3 – The RIAA and Diamond Multimedia Systems, Inc.**

*A “case involving the intersection of computer technology, the Internet, and music listening”.*<sup>1</sup>

### **1. The Facts**

Diamond Multimedia Systems, Inc. (‘Diamond’) is a manufacturer of computer products, “specializing in products to improve multimedia, audio, graphics, video, and communications uses of personal computers”.<sup>2</sup> Towards the end of 1998, Diamond was manufacturing and intending to distribute a device called the Rio PMP 300 (‘Rio’).

The Rio was a battery-operated, “lightweight, hand-held device, capable of receiving, storing, and re-playing digital audio file stored on the hard drive of a personal computer”.<sup>3</sup> These digital audio files needed to be in the MP3 format.<sup>4</sup> Once the Rio had received a digital audio file, the device could be detached from the PC and used separately to play back the digital audio files.

In 1999, the Rio player sold for US\$200.<sup>5</sup> Prior to the invention of devices like the Rio, MP3 users had little option other than to listen to their downloaded digital audio files through headphones or speakers at their PCs, playing them from their hard drives. The Rio effectively rendered these files portable.

More precisely, once an audio file had been downloaded onto a computer hard drive from the Internet or some other source, separate software provided with the Rio, called ‘Rio Manager’, allowed the user to further download the file to the Rio through

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<sup>1</sup> *Recording Industry Association of America, Inc. v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999) (“*Diamond I*”) at 1073.

<sup>2</sup> *Recording Industry Association of America, Inc. v. Diamond Multimedia Systems, Inc.*, 29 F.Supp.2d 624 (C.D.Cal 1998) (“*Diamond I*”) at 625.

<sup>3</sup> *Diamond I* at 625.

<sup>4</sup> See Chapter 1.

a parallel port cable that plugged the Rio into the PC. The Rio device was incapable of effecting such a transfer and of receiving audio files from anything other than a PC equipped with Rio Manager.

It is important to note that the Rio played back the digital audio file through an analogue audio signal sent to the headphones and had no digital output capability. This meant that the Rio was incapable of passing on any stored digital audio files to other devices.

The Rio device itself contained 32 megabytes of memory, allowing storage of approximately 60 minutes of music in the MP3 format. However, the storage capacity of the Rio could have been be doubled with the purchase of a removable 'memory card'. As this 'memory card' was removable, it was possible that a Rio user could store music on it and then pass it on to another Rio user.

## **2. The Case**

### **A. The Action**

On October 9 1998 the RIAA filed an action against Diamond. Their obvious concern was that devices like the Rio would increase the popularity of unauthorised MP3 files.

The RIAA sought a preliminarily injunction to enjoin the manufacture and distribution of the Rio, alleging that it did not meet the requirements of a 'digital audio recording device' in the AHRA. Namely, that it did not employ a SCMS that sends, receives, and acts upon information about the generation and copyright status of the files that it played.<sup>6</sup>

Further, the RIAA also sought payment of the royalties owed by Diamond as the manufacturer and distributor of a 'digital audio recording device'.<sup>7</sup>

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<sup>5</sup> Chris St. John, *First Hands-On Review of the New Rio MP3 player!* <<http://www.wearablegear.com/reviews/riorev.htm>>.

<sup>6</sup> See § 1002(a)(2).

<sup>7</sup> See § 1003.

## **B. The Preliminary Injunction**

### **1. The District Court**

On October 26 1998, the RIAA's motion for a preliminary injunction came on for hearing before the United States District Court for the Central District of California.

First, the District Court held that the Rio was a 'digital audio recording device' under the AHRA. Second, the District Court found that the RIAA had not established likelihood of success on claims that the Rio device was in violation of AHRA. Finally, that in any event any irreparable injury the RIAA might suffer was not as a result of any AHRA violation. As such the District Court denied the motion for a preliminary injunction.

### **2. The Ninth Circuit**

The RIAA brought an appeal to the United States Court of Appeals, Ninth Circuit. The case was argued and submitted on April 15 1999 and decided on June 15 1999.

The Ninth Circuit held that the Rio device did not record directly from 'digital music recordings,' and that it was not a 'digital audio recording device' because it did not reproduce digital music recordings from transmissions. Consequently, the RIAA's appeal was dismissed.

### **3. The District Court's Discussion**

In determining whether to grant a preliminary injunction against Diamond, the District Court first considered RIAA's probability of success on the merits and next whether any irreparable injury would be caused to either side.

## A. The RIAA's Probability of Success on the Merits

The District Court had no precedent to guide its interpretation of the AHRA, so in determining the RIAA's probability of success on the merits, it began its analysis with the "familiar canon of statutory construction that the starting point for interpreting a statute is the language of the statute itself. Absent a clearly expressed legislative intention to the contrary, that language must ordinarily be regarded as conclusive".<sup>8</sup>

### 1. Was the Rio a 'digital audio recording device'?

For the Rio to fall within the SCMS and the royalty requirements of the AHRA it had to be a 'digital audio recording device'. Diamond proposed two theories why the Rio was not such a device.

Diamond's first argument was based on the exclusion in section 1001(5)(B)(ii). For the Rio to be a 'digital audio recording device' it had to be capable of making a 'digital audio copied recording'. A 'digital audio copied recording' is in turn defined as "a reproduction in a digital recording format of a digital musical recording".<sup>9</sup>

Diamond argued that the exclusion in section 1001(5)(B)(ii) for "material objects...in which one or more computer programs are fixed", covered a computer's hard-drive and that therefore a computer's hard-drive was excluded from the definition of a 'digital musical recording'. Consequently, Diamond reasoned that because the source of its copy was a computer's hard-drive, the Rio was not capable of making a 'digital audio copied recording'.

Secondly, Diamond argued that the Rio was not a 'digital audio recording device' because it did not have a "digital recording function" as required under section 1001(3). Diamond argued that the Rio had no "digital recording function" because unless software on a PC was used to manage the transfer of files, the Rio could not record anything.

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<sup>8</sup> *Continental Cablevision, Inc. v. Poll*, 124 F.3d 1044 (9th Cir.1997) at 1048 (quoting *Consumer Prod. Safety Comm'n v. GTE Sylvania, Inc.*, 447 U.S. 102 (1980) at 108).

<sup>9</sup> § 1001(1).



(a) Does the section 1001(5)(B)(ii) exclusion cover a computer's hard-drive?

With regard to Diamond's first argument, the RIAA argued that the exception in section 1001(5)(B)(ii) was not a 'hard-drive exception' as it contended. Instead, according to the RIAA it was rather "an exception for computer programs, originally designed to clarify that copying of CD-ROMs containing incidental audio tracks is not intended to be addressed by the AHRA".<sup>10</sup>

The RIAA did not dispute that hard-drives were not subject to the AHRA. However, according to the RIAA this exemption did not result from section 1001(5)(B)(ii), but rather from the definition of a 'digital audio recording device' in section 1001(3). This section effectively excludes from the definition of a 'digital audio recording device' a device that does not have as a "primary purpose" the recording of digital audio.

On the other hand, Diamond argued that the section 1001(5)(B)(ii) exclusion was unambiguous and that it encompassed not only computer programs on CD-ROM, but also hard-drives and other "material objects" including "Zip drives, integrated circuits, circuit boards and the like".<sup>11</sup> Diamond argued that excluding hard-drives from the definition of 'digital musical recording' was part of Congress' intention to exclude the PC industry from regulation under the AHRA.<sup>12</sup>

The District Court noted that although Diamond's interpretation of section 1001(5)(B)(ii) had superficial appeal, it was "ultimately unsupported by the legislative history and contrary to the spirit and purpose of the AHRA".<sup>13</sup> This subsequently led the District Court into a discussion of the AHRA's legislative history.

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<sup>10</sup> Plaintiffs' Reply at 12:5-7.

<sup>11</sup> Defendant's Opposition at 10:13-16.

<sup>12</sup> Defendant's Reply at 11-18:19.

<sup>13</sup> *Diamond I* at 629.

(i) The Legislative History

The District Court noted that Diamond relied heavily on the declaration of James Burger, the former Chairman of the Intellectual Property Committee of the Information Industry Council ('ITI'), a trade association representing the interests of the computer industry.

Regarding the AHRA, James Burger in his capacity as Chairman of ITI, purported to have engaged in direct discussions with representatives of the Consumer Electronics Manufacturers Association, RIAA officials, and legislators. James Burger stated that it was as a result of these discussion that the section 1001(5)(B)(ii) exclusion covered hard-drives.<sup>14</sup> In doing this James Burger made reference to Senate Report 102-294.

The District Court noted that his reference to the legislative history was "not persuasive".<sup>15</sup> The District Court found that the sentence that James Burger quoted from the Senate Report to support Diamond's interpretation of section 1001(5)(B)(ii) actually appears in the context of a discussion of section 1001(3), the definition of a 'digital audio recording device'.<sup>16</sup>

The District Court went on to explain that the previous paragraph of the Senate Report emphasises that the definition of a 'digital audio recording device' makes clear that it must be a machine or device that has a recording function designed or marketed for the primary purpose of making a 'digital audio copied recording'.

Consequently, because this language addressed the section 1001(3) definition of "primary purpose", rather than the section 1001(5)(B)(ii) definition of "material object", the District Court reasoned that James Burger's reference to the passage appeared misplaced.<sup>17</sup>

The District Court also went on to find that other portions of the legislative history supported RIAA's contention that section 1001(5)(B)(ii) was only intended to avoid

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<sup>14</sup> Burger Declaration 10-11.

<sup>15</sup> *Diamond I* at 629.

<sup>16</sup> *Senate Judiciary Committee*, 102nd Congress, 2nd Session, Report No. 102-294 (1992) ("*Senate Report*").

<sup>17</sup> *Diamond I* at 630.

immunising the illegal copying of computer programs. Thus the District Court found that this, “albeit far from unequivocal”, ultimately suggested “a legislative intent to avoid immunizing the illegitimate copying of computer programs from liability for copyright infringement”.<sup>18</sup>

(ii) The Purpose of the AHRA

More importantly, the District Court found that Diamond’s construction of section 1001(5)(B)(ii) would effectively eviscerate the AHRA. This, the District Court explained, was because any ‘digital audio recording device’ could evade AHRA regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard-drive.

The District Court found that Diamond made no attempt to rationalise this result, but rather argued that technology had outpaced the AHRA, and that the District Court should not re-legislate statutes which failed to anticipate new technology. The District Court noted that although the line between “interpretation” and “re-legislation” was not easily defined, it was sceptical that Congress intended Diamond’s “counter-intuitive” construction of section 1001(5)(B)(ii).<sup>19</sup>

(b) Does the Rio have a “digital recording function”?

Next, the District Court addressed Diamond’s second argument against the Rio being a ‘digital audio recording device’, notably that the Rio had no “digital recording function”.

The District Court found that although Diamond did not expressly state it, this argument suggested that if a peripheral device was reliant on a PC for any step in the recording process, thereby precluding truly “independent” recording, the peripheral device would have no “recording function” for the purposes of the AHRA.<sup>20</sup>

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<sup>18</sup> *Diamond I* at 630.

<sup>19</sup> *ibid* at 630.

<sup>20</sup> *ibid* at 631.

Diamond's argument was premised on a single reference in the legislative history.<sup>21</sup> The District Court noted that aside for this passage, nothing in the legislative history even remotely suggested that lack of a completely independent recording function removes a device from the purview of the AHRA.

In fact to the contrary the District Court found that the legislative history established that the phrase "recording function" was included to ensure that the primary purpose test was only applied to the audio recording function of a device that could record audio, video, and multimedia.

Similarly, the District Court found that nothing in the definition of section 1001(3) remotely suggested that a 'digital audio recording device' had to be able to record independently from a computer. The AHRA only required that the 'digital audio recording device' be "capable of making a...recording".<sup>22</sup> It did not say "independently capable of making recordings".<sup>23</sup>

As such the District Court noted that Diamond's interpretation of the phrase "recording function" was contrary to the purposes of the AHRA. Under Diamond's interpretation, any device not capable of truly independent recording would evade regulation under the AHRA, even though the device was capable of making digital audio reproductions. The District Court held that it was not inclined to undermine the entire statutory scheme based on a single, isolated comment in the legislative history.<sup>24</sup>

## 2. Section 1002 – The Incorporation of Copying Controls

### (a) Does the Rio allow "serial copying"?

After the District Court had determined that the Rio was a 'digital audio recording device', it next moved on to the issue of "serial copying". The AHRA defines "serial

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<sup>21</sup> *Senate Report* at 53.

<sup>22</sup> § 1001(3).

<sup>23</sup> *Diamond I* at 631.

<sup>24</sup> *ibid* at 631.

copying” as “the duplication in a digital format of a copyrighted musical work or sound recording from a digital reproduction of a digital musical recording”.<sup>25</sup>

The District Court concurred with the RIAA that the two-step process at issue here – audio CD to hard drive, and hard drive to Rio – appeared to technically satisfy the definition of “serial copying”.<sup>26</sup> The District Court explained that a conventional audio CD was a ‘digital musical recording’, and the MP3 file ‘ripped’ from an audio CD and stored on the hard-drive was a “digital reproduction” of that ‘digital musical recording’. This meant that the version in the Rio was a “duplication” of the “digital reproduction” on the hard drive.

Although a PC is not a ‘digital audio recording device’, the District Court found that the definition of ‘serial copying’ in section 1001(11) did not require that the digital reproduction of a ‘digital musical recording’ be generated by a ‘digital audio recording device’.<sup>27</sup>

(b) Section 1002(a)

The District Court noted that although the two-step process involved with the Rio technically satisfied the definition of ‘serial copying’, the AHRA does not directly prohibit digital serial copying of copyright protected audio recordings.

Instead section 1002(a) prohibits the import, manufacture and distribution of any ‘digital audio recording device’ that does not conform to the SCMS, “a system that has the same functional characteristics as the Serial Copy Management System”, or “any other system certified by the Secretary of Commerce as prohibiting unauthorized serial copying”.<sup>28</sup>

Consequently, if Diamond had incorporated the SCMS technology into the Rio, no violation of section 1002 would have occurred because the Rio would satisfy subsection 1002(a)(1). However, the District Court found that incorporating SCMS

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<sup>25</sup> § 1001(11).

<sup>26</sup> *Diamond I* at 631.

<sup>27</sup> *ibid* at 631.

<sup>28</sup> § 1002(a)(1)-(3).

into the Rio, accomplished nothing. The Rio could not act upon copyright and generation status information because the MP3 files on the computer's hard-drive did not contain this information.

Similarly, the District Court found it was undisputed that the Rio did not permit downstream copying because the Rio itself had no digital output capability, and the removable flash memory cards could not be copied by another Rio device. Therefore, according to the District Court it was "nonsensical" to suggest that the Rio must send "copyright and generation status information".<sup>29</sup>

To the District Court incorporating SCMS into the Rio appeared to be an "exercise in futility".<sup>30</sup> As a Rio with SCMS would not violate section 1002, and because a Rio without SCMS is functionally equivalent to a Rio with SCMS, the District Court was convinced that the Secretary of Commerce would conclude that the Rio adequately prohibited unauthorised serial copying for purposes of section 1002(a)(3).

Accordingly, the District Court found that Diamond was only violating section 1002(a) in a more technical sense, by failing to acquire a certificate. As such the District Court concluded that the RIAA's probability of success on the merits was mixed. It found that although the RIAA had established a probability that the Rio was a 'digital audio recording device', the RIAA had not established a probability of success in establishing that the Rio, if assessed by the Secretary of Commerce, would fail to satisfy section 1002(a)(3).

## **B. Irreparable Injury**

The District Court found that assuming that the Rio was subject to the AHRA, and that Diamond ultimately paid any required royalties, the only potential wrongful conduct would be Diamond's failure to encode SCMS information on recordings stored in the Rio.<sup>31</sup>

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<sup>29</sup> *Senate Report* at 26.

<sup>30</sup> *Diamond I* at 632.

<sup>31</sup> *ibid* at 632.

Overall, the court was “skeptical” that the Secretary of Commerce would require Diamond to incorporate SCMS technology.<sup>32</sup> Furthermore, the District Court found that even if the Secretary did impose that requirement, it believed that the RIAA had failed to demonstrate a sufficient causal relationship between this wrongful conduct and their alleged injuries.

The RIAA contended that distribution of the Rio in its current configuration would have harmed them and the “public interest by dramatically stimulating the traffic in illegal MP3 files”.<sup>33</sup> The District Court found that although the Rio would inevitably be used to record both legitimate music and illegitimate music, the absence of the SCMS information did not cause the illegitimate uses.

Even if the Rio did incorporate SCMS, a Rio user could still use the device to record unauthorised MP3 files posted to the Internet. Moreover, to the extent that the RIAA was injured through an deleterious use of the Rio, the court found that this is precisely the type of injury for which the royalty provisions were adopted.<sup>34</sup> Under these circumstances, the District Court concluded that the RIAA had failed to establish any irreparable injury.

Diamond in contrast offered what the District Court found to be credible evidence that an injunction would substantially impact its projected revenues from the sale of the Rio.<sup>35</sup> Moreover, the District Court found that because the Rio was capable of recording legitimate digital music, an injunction would deprive the public of a device with significant beneficial uses.

#### **4. The Ninth Circuit**

In the Ninth Circuit’s discussion the initial question was whether the Rio fell within the ambit of the AHRA. After examining the nested definitions, in the Ninth Circuit’s opinion, for the Rio to be a ‘digital audio recording device,’ it had to be able

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<sup>32</sup> *Diamond I* at 632.

<sup>33</sup> Plaintiffs’ Reply at 20:20-22.

<sup>34</sup> *Diamond I* at 632.

<sup>35</sup> See Defendant’s Opposition at 7:1-27.

to reproduce, either “directly” or “from a transmission”, a ‘digital musical recording’.<sup>36</sup>

#### **A. Is the Rio able to directly reproduce a ‘digital musical recording’?**

First the Ninth Circuit considered whether the Rio was able to directly reproduce a ‘digital musical recording’.

##### **1. Section 1001(5)**

The Ninth Circuit noted that the typical computer hard-drive from which a Rio would directly record was obviously a material object. However, the court went on to explain that hard-drives ordinarily contain much more than “only sounds, and material, statements, or instructions incidental to those fixed sounds”.<sup>37</sup> Indeed, almost all hard-drives contain numerous programs that are not incidental to any sound files that may be stored on the hard-drive.

The Ninth Circuit therefore held that the Rio appeared not to make copies from ‘digital music recordings’, as defined in section 1001(5)(A). Thus, the Rio was not a ‘digital audio recording device’ under the AHRA’s basic definition unless it made copies from transmissions.

The Ninth Circuit went further still and noted that section 1001(5)(B)(ii) expressly provides that the term ‘digital musical recording’ does not include a material object “in which one or more computer programs are fixed”.<sup>38</sup> As such the Ninth Circuit reaffirmed its conclusion that a hard-drive is excluded from the definition of ‘digital musical recordings’.

##### **2. The District Court’s Rejection of the Exclusion of Hard-drives**

Next, the Ninth Circuit addressed the District Court’s rejection of the exclusion of computer hard-drives from the definition of ‘digital music recordings’ under the

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<sup>36</sup> *Diamond II* at 1076.

<sup>37</sup> § 1001(5)(A)(i).

<sup>38</sup> *Diamond II* at 1076.



statute's plain language, and its conclusion that such an exclusion was "ultimately unsupported by the legislative history, and contrary to the spirit and purpose of the AHRA".<sup>39</sup>

The Ninth Circuit noted that the statutory language was clear, but nevertheless, went on to address the legislative history, because it believed that it was "consistent with the statute's plain meaning and because the parties have briefed it so extensively".<sup>40</sup>

(a) Basic Definition

The Senate Report states that "if the material object contains computer programs or databases that are not incidental to the fixed sounds, then the material object would not qualify" under the basic definition of a 'digital musical recording'.<sup>41</sup>

The Senate Report, however discusses the term "audiogram" which was replaced by the term "digital music recording". The Ninth Circuit noted that the two definitions were nearly identical and comments in the legislative history regarding the "audiogram" definition were relevant to its interpretation of the 'digital music recording' definition.

The Ninth Circuit also noted that a footnote in the Senate Report made it clear that this definition only extends to the material objects in which songs are normally fixed; that is "recorded compact discs, digital audio tapes, audio cassettes, long-playing albums, digital compact cassettes, and mini-discs".<sup>42</sup>

Consequently, the Ninth Circuit held that there were simply no grounds in either the plain language of the definition or in the legislative history for interpreting the term "digital musical recording" to include songs fixed on computer hard-drives.

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<sup>39</sup> *Diamond I* at 629.

<sup>40</sup> *Diamond II* at 1077.

<sup>41</sup> *Senate Report* at 118-19.

<sup>42</sup> *ibid* at footnote 36.

(b) Specific Exemption

The Ninth Circuit then addressed the RIAA's contention that the legislative history revealed that the Rio did not fall within the specific exemption from the digital musical recording definition of "a material object in which one or more computer programs are fixed".<sup>43</sup> The RIAA pointed out that the House Report describes the exemption as "revisions reflecting exemptions for talking books and computer programs".<sup>44</sup>

The Ninth Circuit noted that limiting the exemption to computer programs was contrary to the plain meaning of the exemption.<sup>45</sup> The Ninth Circuit found that the plain language of the exemption at issue did not exclude the copying of programs from coverage by the AHRA, but instead, excludes copying from various types of material objects.

These objects, the Ninth Circuit found, include hard-drives, which indirectly achieve the desired result of excluding copying of programs. By its plain language, the exemption was not limited to the copying of programs, but instead extended to any copying from a computer hard-drive.

Moreover, the Ninth Circuit noted that this issue was irrelevant here because the Rio did not reproduce files from something that falls within the plain language of the basic definition of a 'digital music recording'.

(c) The Loophole

Next, the Ninth Circuit addressed the District Court's conclusion that the exemption of computer hard-drives from the definition of 'digital music recording', from the AHRA's ambit, would effectively eviscerate the Act because any recording device could evade regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard-drive.

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<sup>43</sup> § 1001(5)(B)(ii).

<sup>44</sup> *House of Representatives Report*, Report No. 102-873(I) (1992) ("*House Report 1992*") at 35.

<sup>45</sup> *Diamond II* at 1077.

The Ninth Circuit found that while this may be true, “the Act seems to have been expressly designed to create this loophole”.<sup>46</sup>

(i) Primary Purpose

The Ninth Circuit noted that under the plain meaning of the AHRA’s definition of ‘digital audio recording devices’, computers hard-drives were not ‘digital audio recording devices’ because their “primary purpose” is not to make digital audio copied recordings.<sup>47</sup> Instead, the primary purpose of a computer is to run various programs and to record the data necessary to run those programs and perform various tasks.

Further, the Ninth Circuit noted, the legislative history is consistent with this interpretation of the Act’s provisions, because it states that “the typical personal computer would not fall within the definition of ‘digital audio recording device’”,<sup>48</sup> because a PC’s “recording function is designed and marketed primarily for the recording of data and computer programs”.<sup>49</sup>

The Ninth Circuit found that the legislative history thus expressly recognised that computers have recording functions capable of recording digital musical recordings, and thus implicate the home taping and piracy concerns to which the AHRA is responsive. Nonetheless, the Ninth Circuit found that the legislative history was consistent with the AHRA’s plain language – computers are not digital audio recording devices.<sup>50</sup>

Indeed, the Ninth Circuit noted that the exclusion of computers from the AHRA’s scope seems to have been part of a carefully negotiated compromise between the various industries with interests at stake, and without which, the computer industry would have vigorously opposed passage of the AHRA.

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<sup>46</sup> *Diamond II* at 1078.

<sup>47</sup> See § 1001(3).

<sup>48</sup> *Senate Report* at 122.

<sup>49</sup> *ibid* at 121.

<sup>50</sup> *Diamond II* at 1078.

(ii) Laundering

In turn, the Ninth Circuit found that because computers were not ‘digital audio recording devices’, they were not required to comply with the SCMS requirement and thus need not send, receive, or act upon information regarding copyright and generation status.<sup>51</sup>

This combined with the District Court’s finding that MP3 files generally do not even carry the codes providing information regarding copyright and generation status, led the Ninth Circuit to conclude that the AHRA seemed designed to allow files to be “laundered” by passage through a computer. This was so, because even a device with SCMS would be able to download MP3 files lacking SCMS codes from a computer hard-drive, for the simple reason that there would be no codes to prevent the copying.

The Ninth Circuit found that, again the legislative history was consistent with the AHRA’s plain meaning. The Technical Reference Document that described the SCMS system explained digital audio signals “that have no information concerning copyright and/or generation status shall be recorded by the device so that the digital copy is copyright asserted and original generation status”.<sup>52</sup>

Thus, the Ninth Circuit noted, that the incorporation of SCMS into the Rio would have allowed the Rio to copy MP3 files lacking SCMS codes so long as it marked the copied files as “original generation status”.<sup>53</sup> Such a marking would have allowed another SCMS device to make unlimited further copies of such “original generation status” files, despite the fact that the Rio did not permit such further copies to be made simply because it could not download or transmit the files that it stored to any other device.

The Ninth Circuit therefore concluded that the Rio without SCMS inherently allowed less copying than SCMS permits.

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<sup>51</sup> See § 1002(a)(2).

<sup>52</sup> *Technical Reference Document for the Audio Home Recording Act of 1992*, II-A, 10, reprinted in *House Report 1992* at 32.

<sup>53</sup> *Diamond II* at 1079.

(iii) Personal Use

The Ninth Circuit stated that the Rio's operation was entirely consistent with the AHRA's main purpose – the facilitation of personal use. As the Senate Report explains, the purpose of the AHRA “is to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use”.<sup>54</sup>

The Ninth Circuit noted that the AHRA fulfilled this purpose through its home taping exemption,<sup>55</sup> which “protects all noncommercial copying by consumers of digital and analog musical recordings”.<sup>56</sup> According to the Ninth Circuit, the Rio merely made copies in order to render portable, or ‘space-shift’, those files that already reside on a user's hard drive.

Here, the Ninth Circuit cited the *Sony* case and ‘time-shifting’, and found that such copying, was paradigmatic non-commercial personal use entirely consistent with the purposes of the Act.<sup>57</sup>

**B. Is the Rio able to reproduce a ‘digital music recording’ “from a transmission”?**

Even though the Ninth Circuit found that the Rio could not directly reproduce a ‘digital music recording’, the Rio would nevertheless have been a ‘digital audio recording device’ if it could have reproduced a ‘digital music recording’ “from a transmission”.<sup>58</sup>

**1. Definition of Transmission**

The term “transmission” is not defined in the AHRA. The Ninth Circuit, found that the legislative history confirmed that the copyright law definition of “transmission”

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<sup>54</sup> *Senate Report* at 86.

<sup>55</sup> See § 1008.

<sup>56</sup> *House Report 1992* at 59.

<sup>57</sup> *Sony* at 455.

<sup>58</sup> § 1001(1).

was sufficient for its purposes in this case.<sup>59</sup> In the context of copyright law, to “‘transmit’ a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent”.<sup>60</sup>

## 2. Nature of the Reproduction of the Transmission

The RIAA asserted that indirect reproduction of a transmission was sufficient for the Rio to fall within the Act’s ambit as a ‘digital audio recording device’.<sup>61</sup>

Diamond asserted that the adverb “indirectly” modified the recording of the underlying “digital music recording”, rather than the recording “from the transmission”. Diamond effectively asserted that the statute should be read as covering devices that are capable of making a reproduction of a digital musical recording, “whether that reproduction is made directly[,] from another digital musical recording[,] or indirectly[,] from a transmission”.<sup>62</sup>

The Ninth Circuit found that while the Rio could only directly reproduce files from a computer hard-drive through a cable linking the two devices, the Rio could indirectly reproduce a transmission.<sup>63</sup> For example, if a radio broadcast of a digital audio recording were recorded on a compact disc recorder and then uploaded to a computer hard-drive, the Rio could indirectly reproduce the transmission by downloading a copy from the hard-drive.

Consequently, the Ninth Circuit noted that if indirect reproduction of a transmission falls within the statutory definition, the Rio would be a ‘digital audio recording device’.<sup>64</sup>

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<sup>59</sup> *Senate Report* at 10.

<sup>60</sup> § 101.

<sup>61</sup> § 1001(1).

<sup>62</sup> *Diamond II* at 1080.

<sup>63</sup> *ibid* at 1080.

<sup>64</sup> *ibid* at 1080.

(a) Statutory Language

The Ninth Circuit concluded that after closer analysis, the RIAA's interpretation of the statutory language was "contrary to the statutory language and common sense".<sup>65</sup> According to the Ninth Circuit the focus of the statutory language seemed to be on the two means of reproducing the underlying digital music recording – either directly from that recording, or indirectly, by reproducing the recording from a transmission.

The Ninth Circuit found that the RIAA's interpretation of the AHRA language would only cover the indirect recording of transmissions, and would omit restrictions on the direct recording of transmissions (e.g. recording songs from the radio) from the AHRA ambit.

The Ninth Circuit held that this "interpretation would significantly reduce the protection afforded by the Act to transmissions, and neither the statutory language nor structure provides any reason that the Act's protections should be so limited".<sup>66</sup>

Furthermore, the Ninth Circuit held that it made "little sense" for the AHRA to restrict the indirect recording of transmissions, but to allow unrestricted direct recording of transmissions.<sup>67</sup> Thus, the Ninth Circuit concluded that the "most logical" reading of the AHRA, extends protection to direct copying of digital music recordings, and to indirect copying of digital music recordings from transmissions of those recordings.<sup>68</sup>

(b) Legislative History

However, because of the arguable ambiguity of this passage of the statute, the Ninth Circuit decided that recourse to the legislative history was necessary on this point. The Senate Report states that "a digital audio recording made from a commercially released compact disc or audio cassette, or from a radio broadcast of a commercially

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<sup>65</sup> *Diamond II* at 1080.

<sup>66</sup> *ibid* at 1080.

<sup>67</sup> *ibid* at 1080.

<sup>68</sup> *ibid* at 1080.

released compact disc or audio cassette, would be a ‘digital audio copied recording’.”<sup>69</sup>

According to the Ninth Circuit this indicated that the recording of a transmission need not be indirect to fall within the scope of the AHRA’s restrictions, and thus refuted RIAA’s proposed interpretation of the relevant language.<sup>70</sup>

Moreover, the statement tracks the statutory definition by providing an example of direct copying of a ‘digital musical recording’ from that recording, and an example of indirect copying of a ‘digital musical recording’ from a transmission of that recording. This led the Ninth Circuit to conclude that the legislative history confirmed the most logical reading of the statute, which it then adopted; that is, “indirectly” modified the verb “is made” – in other words, modified the making of the reproduction of the underlying ‘digital music recording’.<sup>71</sup>

Accordingly, the Ninth Circuit held that a device falls within the AHRA’s provisions if it can indirectly copy a ‘digital music recording’ by making a copy from a transmission of that recording. As the Rio could not make copies from transmissions, but instead, can only make copies from a computer hard-drive, it was not a ‘digital audio recording device.’

## **5. The Aftermath**

Following the Ninth Circuit’s ruling, without releasing any terms, the RIAA and Diamond settled their case.<sup>72</sup> Although the dispute was a source of substantial publicity at the time, the controversy concerning the Rio player seems to have had a limited short-term impact.

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<sup>69</sup> *Senate Report* at 119.

<sup>70</sup> *Diamond II* at 1081.

<sup>71</sup> *ibid* at 1081.

<sup>72</sup> Chris Oakes, *RIAA, Diamond Sweep Away Suit*, Wired News, August 4, 1999 <<http://www.wired.com/news/politics/0,1283,21089,00.html>>.



Furthermore, since the decisions allowing the Rio to be sold to the public, the market for MP3-related material has expanded.<sup>73</sup> Moreover, soon after the District Court's decision the Rio had been hacked to allow the device to upload files back to PCs, one of the capabilities the District Court had noted the Rio did not have when denying the injunction to prohibit its sale.<sup>74</sup>

Even with its limited short-term impact, the *Diamond* case sparked the discussion regarding what steps should be taken in order to protect copyright rights in the face of the Internet music explosion.<sup>75</sup> As such, policy questions still remained with regards to what type of regulations should exist in relation to the distribution of music files and related intellectual property over the Internet.

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<sup>73</sup> Jessica Trivellini Toney, *You've Got Mud On Your Face: Have MP3s Turned The Middleman Into Roadkill?*, 22 Hastings Comm/Ent L.J. 127 (1999) at 144.

<sup>74</sup> Joe Nickell, *Mighty Rio Now a Two-Way Street*, Wired News, January 26, 1999 <<http://www.wired.com/news/culture/0,1284,17529,00.html>>.

<sup>75</sup> Paul Veravanich, *op.cit* at 446-447.

## Chapter 4 – The RIAA and MP3.com, Inc.

*“They need to understand that the law’s domain knows no such limits”.*<sup>1</sup>

The RIAA, beaten but not deterred by its defeat at the hands of Diamond, shifted its attention from hardware manufacturers to the facilitators of MP3 file transfers over the Internet.

In some cases, an individual entity may be the source of ‘copies’ for a large number of end users. This would be the case in a traditional pirate distribution chain in which a single music pirate makes thousands of copies of a recording and sells those copies to the public. The MP3.com case involved such large scale copying by a single entity, but it “presented a uniquely Internet-based twist on the typical fact pattern”.<sup>2</sup>

### **1. The Facts**

MP3.com is a well known web site specialising in distributing music in the MP3 format and providing information and support to the MP3 community.<sup>3</sup> On or around January 12 2000, MP3.com launched its new ‘My.MP3.com’ service. This service was advertised as “permitting subscribers to store, customize and listen to the recordings contained on their CDs from any place where they have an Internet connection”.<sup>4</sup>

Initially, a subscriber to the ‘My.MP3.com’ service had to upload the CD that they wanted to ‘store’ to the ‘My.MP3.com’ web site. This could be done in two ways. Firstly, they could insert their music CD into their computer’s CD-ROM drive for a few seconds. This was called the ‘Beam-it Service’, and used a proprietary verification and security process.<sup>5</sup>

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<sup>1</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 Copr.L.Dec. P 28,141 (S.D.N.Y. 2000) at 6.

<sup>2</sup> Stephen M. Kramarsky, *Copyright Enforcement In The Internet Age: The Law And Technology Of Digital Rights Management*, 11 Depaul-Lca J. Art & Ent. L. 1 (2001) at 24.

<sup>3</sup> <<http://www.mp3.com>>.

<sup>4</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F.Supp.2d 349 (S.D.N.Y. 2000) (“MP3.com”) at 350.

<sup>5</sup> MP3.com at 350.

Alternatively, the subscriber could purchase a CD from one of MP3.com's co-operating online retailers (an 'e-tailer'). This was called the 'Instant Listening Service'. After purchasing a CD, the e-tailer contacted MP3.com and verified that the purchaser owned the CD. The idea with the 'Instant Listening Service' was to allow the CD purchaser to listen to the purchased music immediately, rather than waiting for delivery of the CD.

After that, however, the subscriber was able to access the 'My.MP3.com' service from any computer connected to the Internet. To play the music, the user initiated a listening-only streaming transmission from an MP3.com server to the recipient's PC.<sup>6</sup> From the subscriber's perspective, it was like having a celestial jukebox of their own recordings to which they could listen, through audio streaming, any time and any place from where they had an Internet connection.<sup>7</sup>

'Streaming' is a process that allows a user to receive music and video content over the Internet and is similar to listening to music on a radio or watching a program on television.<sup>8</sup> Unlike radio or television, however, the streamed music or video in most circumstances cannot be recorded, or downloaded in the case of the Internet. As such MP3.com's Instant Listening and Beam-It services did not permit the user to download MP3 files.

In fact, My.MP3.com did not maintain separate music files for each subscriber, but instead kept an overall database of 80,000 recordings on its computer servers.<sup>9</sup> These recordings had been ripped from tens of thousands of popular CDs in which the RIAA held the copyrights.

Moreover, the subscriber did not in fact upload the music to My.MP3.com, but uploaded information from the CD concerning the number of tracks the CD

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<sup>6</sup> Dan Skolnik, *Private Use Out Of Control: Disintermediation In The Music Business, While The Bands Play On*, 5 No. 2 Intell. Prop. L. Bull. 13 (2000) at 24-25.

<sup>7</sup> Jane C. Ginsburg, *Copyright Use And Excuse On The Internet*, 24 Colum.-Vla J.L. & Arts 1 (2000) at 22.

<sup>8</sup> Charles L. Simmons, Jr., *Digital Distribution Of Entertainment Content...The Battle Lines Are Drawn*, 33-Aug Md. B.J. 31 (2000) at 36.

<sup>9</sup> The number of albums MP3.com is said to have copied has been variously reported as 40,000, 45,000, and 80,000.

contained, and the length of each track.<sup>10</sup> This information supplied a 'fingerprint' identifying the subscriber's CD. My.MP3.com then cross-referenced this fingerprint information from the subscriber to the fingerprint information in its database, to identify the subscriber's holdings. As Skolnik comments calling it 'beaming' was an evasion, not a hip synonym, of the word 'uploading'.<sup>11</sup>

With respect to the audio streaming, My.MP3.com had acquired performance licenses from the copyright owners of the musical compositions contained in the sound recordings.<sup>12</sup> However, the producers of the sound recordings had not granted My.MP3.com performance licenses. Moreover, My.MP3.com had not obtained licenses from copyright owners of the musical compositions or of the sound recordings to reproduce the works into the database.

In theory, the My.MP3.com system was premised on its subscribers' legitimate acquisition of physical copies of the sound recordings in the form of music CDs.<sup>13</sup> In fact, My.MP3.com also 'stored' in the subscriber's 'library' copies of entire CDs that the subscriber had downloaded from sites carrying ripped copies of CDs or copied from a friend. This was allowed because the My.MP3.com database could not tell the difference between fingerprint information uploaded from a legitimate CD, and fingerprint information uploaded from a ripped copy of the CD.

In the same manner My.MP3.com would not enter into the subscriber's 'library' individual songs, as single songs do not communicate the necessary fingerprint information. Thus, although the My.MP3.com enterprise may have encountered some 'leakage' by cross-referencing from unlawfully acquired copies of CDs, it appeared that most of the subscribers' 'uploads' derived from legitimate sources.<sup>14</sup>

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<sup>10</sup> Jane C. Ginsburg (2000), op.cit at 22.

<sup>11</sup> Dan Skolnik, op.cit at 25.

<sup>12</sup> Jane C. Ginsburg (2000), op.cit at 22.

<sup>13</sup> *ibid* at 22.

<sup>14</sup> *ibid* at 23.

## **2. The Case**

### **A. The Action**

On January 21 2000, the RIAA filed a copyright infringement lawsuit against MP3.com, after negotiations failed between the parties over royalty fees.<sup>15</sup> The lawsuit alleged that MP3.com's new service, 'My.MP3.com' constituted an illegal reproduction of their sound recordings.<sup>16</sup> The RIAA filed a motion for partial summary judgement.

### **B. The Partial Summary Judgement**

#### **1. The District Court**

According to the District Court, "the complex marvels of cyberspatial communication may create difficult legal issues; but not in this case".<sup>17</sup> The District Court found that MP3.com's infringement of RIAA's copyrights was "clear".<sup>18</sup> Accordingly, on April 28 2000, the District Court granted the RIAA's motion for partial summary judgement holding MP3.com liable for copyright infringement. Its May 4 2000 opinion stated the reasons why.

## **3. The District Court's Discussion**

The District Court noted from the beginning that on its face the facts made out a presumptive case of infringement under the CA.

### **A. Challenge To Prima Facie Infringement**

MP3.com's only challenge to the RIAA's prima facie case of infringement was the suggestion that its music computers files were not in fact "reproductions" of RIAA's copyright works within the meaning of the CA. More specifically, MP3.com claimed

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<sup>15</sup> Hilary Rosen, *Letter from RIAA to MP3.com CEO Michael Robertson*, January 21, 2000 <<http://www.creativepro.com/story/feature/3608.html>>.

<sup>16</sup> See *MP3.com* at 350.

<sup>17</sup> *ibid* at 350.

<sup>18</sup> *ibid* at 350.

that the simulated sounds on MP3 formatted music files were not physically identical to the sounds on the original CD recordings.

The District Court noted that MP3.com conceded, however, that the human ear cannot detect a difference between the two. Moreover, MP3.com admitted that a goal of its copying was to create a music file that was sonically identical to the original CD as possible. The District Court concluded that in “such circumstances, some slight, humanly undetectable difference between the original and the copy does not qualify for exclusion from the coverage of the Act”.<sup>19</sup>

### **B. Is Such Copying ‘Fair Use’?**

MP3.com also argued that the copying involved here was protected by the defence of ‘fair use’.<sup>20</sup>

In conducting the ‘fair use’ analysis, the District Court noted that other relevant factors may also be considered, since fair use is an “equitable rule of reason” to be applied in light of the overall purposes of the CA.<sup>21</sup>

#### **1. The purpose and character of the use**

Regarding the first factor, MP3.com did not dispute that its purpose was commercial. Even though subscribers to My.MP3.com were not being charged a fee, MP3.com was seeking to attract a sufficiently large subscription base to draw advertising and eventually make a profit.<sup>22</sup>

Consideration of the first ‘fair use’ factor also involves inquiring into whether the new use essentially repeats the old or whether, instead, it “transforms” it by infusing it with, for example, new meaning or new understandings.<sup>23</sup>

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<sup>19</sup> *MP3.com* at footnote 1.

<sup>20</sup> See § 107.

<sup>21</sup> *Sony* at 448, 454.

<sup>22</sup> *MP3.com* at 351.

<sup>23</sup> See *Campbell* at 579.

MP3.com argued that the 'My.MP3.com' service provided a transformative "space shift" by which subscribers could enjoy the sound recordings contained on their CDs without lugging around the physical discs themselves. The District Court found that this was "simply another way of saying that the unauthorized copies are being retransmitted in another medium – an insufficient basis for any legitimate claim of transformation".<sup>24</sup>

As such, the District Court held that here MP3.com added no new "new aesthetics, new insights and understandings" to the original music recordings it copied but simply repackaged those recordings to facilitate their transmission through another medium.<sup>25</sup> Thus, the District Court concluded that, "while such services may be innovative, they are not transformative".<sup>26</sup>

## 2. The nature of the copyrighted work

With respect to the second factor, the District Court found that the creative recordings that were being copied were close "to the core of intended copyright protection",<sup>27</sup> and thus far removed from the more factual or descriptive work more amenable to 'fair use'.<sup>28</sup>

## 3. The amount and substantiality

Regarding the third factor, the District Court found it was undisputed that MP3.com copied and replayed the entirety of the copyrighted works in issue here. Accordingly, the District Court held that this also negated any claim of fair use.

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<sup>24</sup> *MP3.com* at 351.

<sup>25</sup> See *Castle Rock Entertainment, Inc. v. Carol Publishing Group*, 150 F.3d 132 (2nd Cir. 1998) ("*Castle*") at 142.

<sup>26</sup> *MP3.com* at 351.

<sup>27</sup> *Campbell* at 586.

<sup>28</sup> See *Nihon Keizai Shimbun, Inc. v. Comline Business Data, Inc.*, 166 F.3d 65, (2d Cir.1999) at 72-73.

#### 4. The effect of the use

In relation to the fourth factor, the District Court found that MP3.com's activities on their face invaded the RIAA's statutory right to license its copyrighted sound recordings to others for reproduction.

MP3.com however, argued that so far as the derivative market involved here was concerned, the RIAA had not shown that such licensing was "traditional, reasonable, or likely to be developed".<sup>29</sup> Furthermore, MP3.com argued its activities could only enhance the RIAA's sales, since its subscribers could not gain access to particular recordings made available by MP3.com unless they had already 'purchased', or agreed to purchase, their own CD copies of those recordings.

The District Court clarified that such purchases may have "actually or purportedly" occurred.<sup>30</sup> Moreover, these arguments by MP3.com were found to be "dressed in the garb of an expert's 'opinion'" and when inspected by the District Court were held to consist "almost entirely of speculative and conclusory statements".<sup>31</sup> The District Court consequently held that MP3.com's arguments were unpersuasive.

According to the District Court, any allegedly positive impact of MP3.com's activities on the RIAA's prior market in no way permitted MP3.com to usurp a further market that directly derives from reproduction of the RIAA's copyrighted works.<sup>32</sup>

This, the District Court held, would be so even if the copyright holder had not yet entered the new market in issue. The District Court's reasoning for this was that a copyright holder's 'exclusive' rights included the right, within broad limits, to curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright holder finds acceptable.<sup>33</sup>

<sup>29</sup> *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (2nd Cir. 1994) at 930, footnote 17.

<sup>30</sup> *MP3.com* at 352.

<sup>31</sup> *ibid* at 352.

<sup>32</sup> See *Infinity Broadcast Corp. v. Kirkwood*, 150 F.3d 104 (2nd Cir. 1994) ("*Infinity*") at 111.

<sup>33</sup> See *Castle* at 145-46.



Furthermore, the District Court found that the RIAA had presented substantial evidence that they had in fact taken steps to enter that market by entering into various licensing agreements.

## 5. Other factors

Next, the District Court addressed MP3.com's reliance on other factors. This essentially involved the claim that My.MP3.com provided a useful service to consumers that, in its absence, would have been served by pirates.

The District Court noted that copyright law was not designed to afford consumer protection or convenience but to protect the copyright holders' property interests. The District Court further noted that as a practical matter, the RIAA had "indicated no objection in principle to licensing their recordings to companies like MP3.com; they simply want to make sure they get the remuneration the law reserves for them as holders of copyrights on creative works".<sup>34</sup>

The District Court concluded that stripped to its essence, MP3.com's "consumer protection" argument amounted to nothing more than a "bald claim" that MP3.com should be able to misappropriate the RIAA's property simply because there was a consumer demand for it. This, the District Court noted, "hardly appeals to the conscience of equity".<sup>35</sup>

## C. Other Defences

In conclusion, the District Court held that on any view, MP3.com's 'fair use' defence must be denied as a matter of law. The District Court went on to say that MP3.com's other defences were "essentially frivolous" and as such were disposed of briefly.<sup>36</sup>

MP3.com had contended, under the rubric of copyright misuse, that the RIAA was misusing its "dominant market position to selectively prosecute only certain online

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<sup>34</sup> *MP3.com* at 352.

<sup>35</sup> *ibid* at 352.

<sup>36</sup> *ibid* at 352-353.

music technology companies”.<sup>37</sup> The District Court found that the evidence showed only that the RIAA had so far reasonably exercised its right to determine which infringers to pursue, and in which order to pursue them.

Furthermore, the District Court found that MP3.com’s abandonment defence had to also fall since MP3.com had failed to adduce any competent evidence of an overt act indicating that the RIAA intentionally abandoned their copyrights.<sup>38</sup> The fact that the RIAA had filed suit against MP3.com shortly after it had launched its infringing My.MP3.com service did not necessarily add weight to this argument.

Similarly, the District Court held that MP3.com’s estoppel defence had to be rejected because MP3.com had failed to provide any competent evidence that it relied on any action by the RIAA with respect to its My.MP3.com service.

Finally, the District Court held that it also had to reject MP3.com’s unclean hands defence given MP3.com’s failure to come forth with any admissible evidence showing bad faith or misconduct on the part of the RIAA.<sup>39</sup>

In conclusion the District Court held that the RIAA was entitled to partial summary judgement holding MP3.com to have infringed its copyrights.<sup>40</sup>

#### **4. The Aftermath**

After the RIAA initially filed its copyright infringement lawsuit against MP3.com, the company lost approximately US\$1 billion in market value.<sup>41</sup> News of the ruling finding MP3.com liable for copyright infringement sent the stock price down an additional forty percent and reduced the My.MP3.com service to a fraction of its initial appeal.

However, MP3.com did continue to offer the service for the streaming of works in the public domain, and by those artists with whom MP3.com had a contractual

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<sup>37</sup> Defendant’s Consolidated Opposition to Plaintiffs’ Motions for Summary Judgement at 21.

<sup>38</sup> See *Richard Feiner & Co., Inc. v. H.R. Indus., Inc.*, 10 F.Supp.2d 310 (S.D.N.Y. 1998) at 313.

<sup>39</sup> See *Dunlop-McCullen v. Local 1-S, AFL-CIO-CLC*, 149 F.3d 85 (2nd Cir.1998) at 90.

<sup>40</sup> *MP3.com* at 353.

<sup>41</sup> See Don Clark & Martin Peers, *MP3 Chief Rocks and Roils Music*, Wall St. J., Mar. 1, 2000 at B1.

relationship, the vast majority of whom were unknown bands trying to make it through Internet distribution.

By a motion dated May 18 2000, MP3.com sought to have the District Court certify for immediate interlocutory appeal the court's order of April 28 2000 holding MP3.com liable for copyright infringement. On June 1 2000, the District Court held that MP3.com's copyright infringement was clear, and the mere fact that it was "clothed in the exotic webbing of the Internet does not disguise its illegality".<sup>42</sup> Accordingly, the motion was denied.

During the summer of 2000, all the record labels except UMG Recordings Inc. settled with MP3.com. MP3.com agreed to pay them approximately US\$80 million in damages, and an additional US\$30 million for licensing fees for the labels' copyrighted works to be streamed from the MP3.com site for the next three years.<sup>43</sup> The fact that UMG had an equity stake in Musicbank, a potential competitor of MP3.com, may explain why UMG did not settle with MP3.com.<sup>44</sup>

The RIAA then filed a motion to have the statutory damages computed on a 'per-song' rather than 'per-CD' basis. By an order dated July 31 2000, the District Court denied the RIAA's motion. The District Court's August 23 2000 written opinion stated that the relevant "work" unit for purposes of computing statutory damages under the CA was each copyrighted CD as a whole, rather than each individual, copyrighted song on each such CD.<sup>45</sup>

The case proceeded to an assessment of statutory damages with respect to UMG, the remaining defendant. On September 6 2000 the District Court found that MP3.com had wilfully infringed copyrights owned or controlled by UMG.<sup>46</sup>

Characterising the infringement as "willful" under section 504 CA, the District Court set the damages at US\$25,000 per CD, but declined to rule on how many of the

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<sup>42</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 WL 710056 at 1.

<sup>43</sup> Maggie A. Lange, *Digital Music Distribution Technologies Challenge Copyright Law: A Review of RIAA v. MP3.com and RIAA v. Napster*, 45 B.B.J. 14 (2001) at 30.

<sup>44</sup> Michelle Delio and Brad King, *MP3.Com Must Pay the Piper*, Wired News, September 6, 2000 <<http://www.wired.com/news/business/0,1367,38613,00.html>>.

<sup>45</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 109 F.Supp.2d 223 (S.D.N.Y. 2000) at 224-225.

80,000 copied CDs' copyrights were owned by UMG. However, the District Court did comment that if MP3.com was right that there were no more than 4,700 CDs for which UMG qualified for statutory damages, the total award would be approximately US\$118 million.

On November 13, 2000 the District Court entertained opening arguments in the damage phase of the bifurcated trial. UMG successfully finessed the largest copyright infringement consent judgement in US history – US\$50 million plus attorney's fees – without proving up a single sound recording copyright.<sup>47</sup>

However, on that same day UMG reached a settlement with MP3.com. It was agreed that UMG would receive US\$53.4 million to settle the suit and would “grant MP3.com a non-exclusive, North American license for the use of UMG-controlled recordings on the My.MP3.com system, including the ‘Beam-it’ and ‘Instant Listening’ software services”.<sup>48</sup>

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<sup>46</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 Copr.L.Dec. P 28,141 (S.D.N.Y. 2000).

<sup>47</sup> See Justin Asher Zitler, *Intellectual Property Law*, 48 La. B.J. 402 (2001) at 404.

<sup>48</sup> MP3.com, *Court Awards Judgment to Universal Music Group In Copyright Infringement Suit With MP3.com*, Press Releases – About MP3.com, November 14, 2000 <<http://pr.mp3.com/pr/217.html>>.

## Chapter 5 – The RIAA and Napster, Inc.

*“Napster may win or lose in court, but copyright law will never be the same”.<sup>1</sup>*

Finding a specific MP3 file on the Internet has always been a tedious process. In early 1999, Shawn Fanning, a nineteen-year-old computer science student at Northeastern University, wanted to make it easier for his roommate to find such MP3 files over the Internet. Fanning ended up creating Napster.

### 1. The Facts

Napster, Inc. made its proprietary ‘MusicShare’ software freely available for Internet users to download.<sup>2</sup> Once downloaded, the Napster system allowed users to exchange MP3 files stored on their own computer hard-drives directly, without payment, and boasted that it took “the frustration out of locating servers with MP3 files”.<sup>3</sup>

The Napster system used a process commonly called ‘peer-to-peer’ file sharing.<sup>4</sup> This process effectively allowed its users to search for and transfer exact copies of MP3 files stored on other users’ computers.

The process was made possible by the ‘MusicShare’ software and Napster’s network servers and server-side software. Napster provided technical support for the indexing and searching of MP3 files, as well as for its other functions, including a ‘chat room’, and a directory where participating artists could provide information about their music. Napster’s ‘MusicShare’ software also played MP3 files.

A sound technical understanding of the Napster system is important to be able to examine the relevant legal issues.

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<sup>1</sup> Joseph Nocera & Tim Carvell, *50 Lessons*, Fortune, October 30, 2000 at 136, 137.

<sup>2</sup> <<http://www.napster.com>>.

<sup>3</sup> Defendant’s Brief at 4.

<sup>4</sup> This structure decentralises the information sharing process and allows each user to both supply and access information rather than rely on the traditional method of using large centralised information servers to supply the requested files.

## **A. Listing Available Files**

A first-time user was required to register with the Napster system by creating a 'user name' and password. If the registered user wanted to share MP3 files on his computer hard-drive with other users on the Napster system, he had to elect a 'user library' directory on his computer's hard-drive where he would store his MP3 files. The user would give these self-designated file names.

When the user logged onto the Napster system the 'MusicShare' software interacted with Napster's server-side software, automatically connecting the user to one of some 150 servers that Napster operated. The MusicShare software then searched the user's 'user library' and verified that the available files were properly formatted. If in the correct MP3 format, the names of the MP3 files were uploaded from the user's computer to the Napster servers. The content of the MP3 files remained stored on the user's computer.

Once uploaded to the Napster servers, the user's MP3 file names were stored in a server-side 'library' under the user's name and became part of a 'collective directory' of files available for transfer during the time the user was logged onto the Napster system. The collective directory tracked users who were connected in real time, displaying only file names that were immediately accessible.

## **B. Searching For Available Files**

Napster allowed a user to locate other users' MP3 files in two ways: through Napster's search function and through its 'hotlist' function.

### **1. Search Function**

Software located on the Napster servers maintained a 'search index' of Napster's collective directory. By using the MusicShare software a user could search the 'search index' by entering either the name of a song or an artist as the object of the search. Napster's server then compiled a list of all MP3 file names pulled from the

search index which included the same search terms entered by the user and transmitted the list to the searching user.

It is important to note that the Napster server did not search the contents of any MP3 file. Instead, the search was limited to “a text search of the file names indexed in a particular cluster. Those file names may contain typographical errors or otherwise inaccurate descriptions of the content of the files since they are designated by other users”.<sup>5</sup>

## 2. ‘Hotlist’ Function

To use the ‘hotlist’ function, Napster users created a list of other users’ names from which they had obtained MP3 files in the past. When logged onto Napster, the system notified the user if any user on their list (a ‘hotlisted user’) was also logged onto the system. If so, the user could access an index of all MP3 file names in a particular hotlisted user’s library and request a file in the library by selecting the file name.

## C. Transferring Copies of an MP3 file

The Napster network facilitated the same mode of file-transfer, whether the requesting user accessed a specific MP3 file with the search engine or the ‘hotlist’ function. To transfer a copy of the contents of a requested MP3 file, the Napster server software obtained the Internet address of the requesting user and the Internet address of the user with the available files (the ‘host user’).

The Napster servers then communicated the host user’s Internet address to the requesting user. The requesting user’s computer used this information to establish a connection with the host user and downloaded a copy of the contents of the MP3 file from one computer to the other over the Internet, ‘peer-to-peer’. It is important to note that the MP3 file was actually transmitted over the Internet, but the steps necessary to make that connection could not have taken place without the Napster

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<sup>5</sup> *A&M Records, Inc. v. Napster, Inc.*, 114 F.Supp.2d 896 (N.D.Cal. 2000) (“*Napster II*”) at 906.

server.<sup>6</sup> Further, it is also important to note that unlike MP3.com, Napster did not store any MP3 files on its servers.

#### **D. Popularity**

Napster changed the way audiophiles searched for and downloaded MP3 files. It created a directory of the best MP3 files on the Internet and led you straight to them. Consequently, Napster took the Internet by storm. Napster is still considered to be the fastest-growing software application ever recorded by Internet research companies.<sup>7</sup>

It was believed that by the end of 2000 there would have been 75 million Napster users. At one point, Napster estimated that even without marketing, its 'viral service' was growing by more than 200 percent per month. Approximately 10,000 music files were being shared per second using Napster, and every second more than 100 users attempted to connect to the system.

#### **E. Copyright Policy**

At the time the lawsuit was filed against Napster, its users uploaded and downloaded MP3 files without payment to each other, Napster, or the copyright owners. The evidence showed that virtually all Napster users downloaded or uploaded copyrighted files and that approximately 87% of the music available on Napster belonged to the RIAA.<sup>8</sup>

However, Napster had never obtained licenses to distribute or download, or to facilitate others in distributing or downloading, the music that the RIAA owned. Napster had however developed a policy that made compliance with all copyright laws one of the 'terms of use' of its service and warned its users that:

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<sup>6</sup> *A&M Records, Inc. v. Napster, Inc.*, 2000 Copr.L.Dec. P 28,072 (N.D.Cal. 2000) ("*Napster I*") at 2.

<sup>7</sup> Peter Svensson, *Off the Charts*, abcnews.com  
<<http://more.abcnews.go.com/sections/tech/dailynews/napster000911.html>>.

<sup>8</sup> *Napster II* at 903.



“Napster will terminate the accounts of users who are repeat infringers of the copyrights, or other intellectual property rights, of others. In addition, Napster reserves the right to terminate the account of a user upon any single infringement of the rights of others in conjunction with use of the Napster service”.<sup>9</sup>

However, there was disagreement over when this policy was instituted and how effectively it barred infringers from using the Napster service. Napster claimed that it had a copyright compliance policy as early as October 1999, but admitted that it did not document or notify users of the existence of this policy until February 7 2000.

## **2. The Case**

### **A. The Action**

Napster posed obvious problems for the recording industry. The possible harm caused by the Rio and by MP3.com was nothing compared to the damage that was being caused by Napster’s 75 million or so users. Officials from the RIAA publicly referred to Napster’s activities as “operating a haven for music piracy on an unprecedented scale” and commented that the Napster service was “similar to a giant online pirate bazaar”.<sup>10</sup>

On December 6 1999, the RIAA filed suit alleging contributory and vicarious copyright infringement by Napster.

### **B. The DMCA Safe Harbors**

#### **1. The District Court**

Napster filed a motion for summary adjudication of the applicability of the safe harbour provisions of the DMCA to its business activities.<sup>11</sup>

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<sup>9</sup> Kessler Declaration § 19.

<sup>10</sup> See Brain Hiatt, *RIAA Sues Napster Claiming “Music Piracy”* <[www.sonicnet.com/news/archive/story.jhtml?id=5699526](http://www.sonicnet.com/news/archive/story.jhtml?id=5699526)>.

<sup>11</sup> See § 512(a).

Napster argued its entire system fell within the safe harbour and that therefore the RIAA could not obtain monetary damages or injunctive relief, except as narrowly specified by subparagraph 512(j)(1)(B). In the alternative, Napster asked the court to find subsection 512(a) applicable to its role in downloading MP3 music files, as opposed to searching for or indexing such files.

The District Court delivered its opinion on May 12 2000. The District Court ultimately held that not all of Napster's activities were covered by the subsection 512(a) safe harbour.

### **C. The Preliminary Injunction**

#### **1. The District Court**

Next, the RIAA sought a motion to preliminarily enjoin Napster from engaging in or assisting others in copying, downloading, uploading, transmitting, or distributing copyrighted music without the express permission of the rights owner.

In opposition to this motion, Napster sought to expand the 'fair use' doctrine, as articulated in the *Sony* case,<sup>12</sup> to encompass the massive downloading of MP3 files by Napster users.

Alternatively, Napster contended that, even if this third-party activity constituted direct copyright infringement, the RIAA had not shown probable success on the merits of their contributory and vicarious infringement claims. Napster also asked the court to find that copyright holders were not injured by a service created and promoted to facilitate the free downloading of music files, the vast majority of which are copyrighted.

On July 26 2000, the District Court granted the RIAA's motion for a preliminary injunction. The injunction was slightly modified by written opinion when the District Court, delivered its written opinion on August 10 2000.<sup>13</sup>

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<sup>12</sup> *Sony*.

## 2. The Ninth Circuit

The RIAA's victory was short-lived. Napster appealed the District Court's preliminary injunction to United States Court of Appeals, Ninth Circuit. Two days later, on 28 July 2000 the Ninth Circuit entered a temporary stay of the preliminary injunction pending resolution of the appeal. This, for the time being, kept Napster in business and as a result the service was more popular than ever.

The Ninth Circuit heard arguments on October 2 2000, released its original opinion on February 12 2001, and released an amended opinion on April 3 2001.<sup>14</sup> The Ninth Circuit affirmed in part, reversed in part and remanded the preliminary injunction.

## **3. The District Court's Discussion on the DMCA**

### **A. The Arguments**

From the outset set, the District Court noted that interpretation of the section 512 safe harbors appeared to be an issue of first impression.

Napster claimed that its business activities fell within the safe harbour provided by subsection 512(a). Citing subparagraph 512(k)(1)(A), Napster argued that it was a 'service provider' for the purposes of the 512(a) safe harbour. First, Napster claimed to offer the "transmission, routing, or providing of connections for digital online communications" by enabling the connection of users' hard-drives and the transmission of MP3 files "directly from the Host hard drive and Napster browser through the Internet to the user's Napster browser and hard drive".<sup>15</sup>

Second, Napster stated that its users chose the online communication points and the MP3 files to be transmitted with no direction from Napster. Finally, it argued that the Napster system did not modify the content of the transferred files. Napster contended that, because it met the definition of 'service provider', it only needed to satisfy the

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<sup>13</sup> See *Napster II*.

<sup>14</sup> See *Napster III*.

<sup>15</sup> Defendant's Reply Brief at 3.

five remaining requirements of the 512(a) safe harbour to prevail in its motion for summary adjudication.

The RIAA appeared to concede that Napster was a ‘service provider’ within the meaning of subparagraph 512(k)(1)(A), “arguing instead that Napster does not satisfy the additional limitations that the prefatory language of subsection 512(a) imposes”.<sup>16</sup> The District Court assumed, but did not hold, that Napster was a ‘service provider’ under subparagraph 512(k)(1)(A).

Napster then went on to show compliance with the five requirements of subsection 512(a). Napster argued that firstly, a Napster user, and never Napster itself, initiated the transmission of MP3 files. Secondly, that the transmission occurred through an automatic, technical process without any editorial input from Napster. Next, that Napster did not choose the recipients of the MP3 files. Fourthly, that Napster did not make a copy of the material during transmission. Finally, that the content of the material was not modified during transmission. Napster thus maintained that the 512(a) safe harbour protected its core function – “transmitting, routing and providing connections for sharing of the files its users choose”.<sup>17</sup>

The RIAA disagreed. Firstly, it argued that subsection 512(n) required the District Court to analyse each of Napster’s functions independently and that not all of these functions fell under the 512(a) safe harbour. In the RIAA’s view, Napster provided information location tools – such as a search engine, directory, index, and links – that were not covered by subsection 512(a) but by the more stringent eligibility requirements of subsection 512(d).

Furthermore, the RIAA contended that Napster did not perform the function which the 512(a) safe harbour protected because the infringing material was not transmitted or routed through the Napster system, as required by the prefatory language of subsection 512(a). The District Court concurred with the RIAA that the definition of ‘service provider’ under subparagraph 512(k)(1)(A) was not identical to the prefatory language of subsection 512(a).<sup>18</sup> The latter imposes the additional requirement that

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<sup>16</sup> *Napster I* at footnote 5.

<sup>17</sup> Defendant’s Reply Brief at 2.

<sup>18</sup> *Napster I* at 4.

transmitting, routing, or providing connections must occur “through the system or network”.<sup>19</sup>

The RIAA argued in the alternative that, if users’ computers were part of the Napster system, copies of MP3 files were stored on the system longer than reasonably necessary for transmission, and thus subparagraph 512(a)(4) was not satisfied.

Finally, the RIAA noted that under the general threshold eligibility requirements established in subsection 512(i), a service provider must have adopted, reasonably implemented, and informed its users of a policy for terminating repeat infringers. The RIAA contended that Napster only adopted its copyright compliance policy after the onset of litigation and even then did not discipline infringers in any meaningful way.

## **B. Independent Analysis of Functions**

Citing subsection 512(n), the RIAA argued that the 512(a) safe harbour did not offer blanket protection to Napster’s entire system. The RIAA considered the focus of the litigation to be Napster’s function as an information location tool which is eligible for protection, if at all, under the more rigorous subsection 512(d). Subsection 512(d) imposes more demanding eligibility requirements.

Napster counter-argued in two ways. First, it argued that subsection 512(a), rather than 512(d), applied because the information location tools it provided were incidental to its core function of automatically transmitting, routing, or providing connections for the MP3 files users select. In the alternative, Napster maintained that, even if the District Court decided to analyse the information location functions under 512(d), it should hold that the 512(a) safe harbour protected other aspects of the Napster service.

The District Court found that Napster undisputedly performed some information location functions.<sup>20</sup> Functions like the search engine, indexing and ‘hot list’ allowed users to locate files and other users. However, Napster argued that these information

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<sup>19</sup> § 512(a).

location tools were incidental to the system's core function of transmitting MP3 music files, and for this reason, the District Court should apply subsection 512(a).

However the District Court noted that Napster had advertised the ease with which its users can locate "millions of songs" online without "wading through page after page of unknown artists".<sup>21</sup> The District Court found that such statements by Napster to promote its service were "tantamount to an admission that its search and indexing functions are essential to its marketability".<sup>22</sup> As such the District Court held that some of these essential functions – including but not limited to the search engine and index – should be analysed under subsection 512(d).

The District Court went on to note that the potential applicability of subsection 512(d) did not completely foreclose use of the 512(a) safe harbour as an affirmative defence.<sup>23</sup> Furthermore, it noted that a ruling that subsection 512(a) applies to any given function would not mean that the DMCA afforded Napster blanket protection.

### **C. Subsection 512(a)**

#### **1. Transmitting**

The RIAA's main argument against application of the 512(a) safe harbour was that Napster did not perform the passive conduit function eligible for protection under this subsection. The District Court noted that the words "conduit" or "passive conduit" did not appear in 512(a), but were found only in the legislative history of the DMCA.<sup>24</sup> The RIAA contended that the use of the word "conduit" in the legislative history explained the meaning of "through a system" in subsection 512(a).

The District Court noted that Napster expressly denied that the transmission of MP3 files ever passed through its servers. Indeed, testimony stated that "files reside on the computers of Napster users, and are transmitted directly between those computers".<sup>25</sup>

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<sup>20</sup> *Napster I* at 5.

<sup>21</sup> Frackman Declaration § 4.

<sup>22</sup> *Napster I* at 6.

<sup>23</sup> See § 512(n).

<sup>24</sup> *Napster I* at 6.

<sup>25</sup> Kessler Declaration § 14.

MP3 files are transmitted “from the Host user’s hard drive and Napster browser, through the Internet to the recipient’s Napster browser and hard drive”.<sup>26</sup> However, the District court noted that the Internet could not be considered “a system or network controlled or operated by or for the service provider”.<sup>27</sup>

To get around this problem, Napster claimed that its servers and MusicShare browsers on its users’ computers were all part of Napster’s overall system. However, Napster narrowly defined its system to include the browsers on users’ computers. Whereas, the RIAA argued that either the system did not include the browsers, or it included not only the browsers, but also the users’ computers themselves.

The District Court found that even assuming that the system included the browser on each user’s computer, the MP3 files were not transmitted “through” the system within the meaning of subsection 512(a).<sup>28</sup> The District Court noted that Napster emphasised the passivity of its role—stating that all “files transfer directly from the computer of one Napster user through the Internet to the computer of the requesting user”.<sup>29</sup> Further it admitted that the transmission bypassed the Napster server.

The District Court held that this meant that even if each user’s Napster browser was part of the system, the transmission went from one part of the system to another, or between parts of the system, but not “through” the system.<sup>30</sup> The District Court consequently found that subsection 512(a) did not protect the transmission of MP3 files.

## 2. Providing connections

However, the prefatory language of subsection 512(a) is disjunctive. Therefore, the District Court noted that its finding that transmission did not occur “through” the system or network did not foreclose the possibility that subsection 512(a) applied to “routing” or “providing connections”. As such, each of these functions was to be analysed independently.

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<sup>26</sup> *ibid* § 12-13.

<sup>27</sup> § 512(a).

<sup>28</sup> *Napster I* at 7.

<sup>29</sup> Defendant’s Brief at 5.

<sup>30</sup> *Napster I* at 7.

Napster contended that providing connections between users' addresses "constitutes the value of the system to the users and the public".<sup>31</sup> This connection could not be established without the provision of the host's address to the Napster browser software installed on the requesting user's computer. The central Napster server delivered the host's address. Nevertheless, the District Court found that Napster did not provide connections "through" its system.<sup>32</sup>

According to the District Court, although the Napster server conveyed address information to establish a connection between the requesting and host users, the connection itself occurred through the Internet. The District Court noted the legislative history of section 512 demonstrated that Congress intended the 512(a) safe harbour to apply only to activities "in which a service provider plays the role of a 'conduit' for the communications of others".<sup>33</sup>

In drawing inferences in the light most favourable to the RIAA, the District Court could not say that Napster served as a conduit for the connection itself, as opposed to the address information that made the connection possible. The District Court consequently held that Napster enabled or facilitated the initiation of connections, but these connections did not pass through the system within the meaning of subsection 512(a).<sup>34</sup>

### 3. Routing

The meaning of "routing" had not been discussed in the legislative history. Napster tried to make "routing" and "providing connections" appear synonymous. However, the District Court doubted that Congress would have used the terms "routing" and "providing connections" disjunctively if they had the same meaning.<sup>35</sup> The District Court found that it was clear from all submissions that the route of the allegedly infringing material went through the Internet from the host to the requesting user, not

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<sup>31</sup> Defendant's Brief at 15.

<sup>32</sup> *Napster I* at 8.

<sup>33</sup> *House of Representatives Report*, Report No. 105-551(II) (1998) ("*House Report 1998*") at 130.

<sup>34</sup> *Napster I* at 8.

<sup>35</sup> *Napster I* at 8.



through the Napster server. As such, the District Court held that routing did not occur through the Napster system.<sup>36</sup>

The District Court held that because Napster did not transmit, route, or provide connections through its system, it had failed to demonstrate that it qualified for the 512(a) safe harbour and declined to grant summary adjudication in its favour.<sup>37</sup>

#### **D. Copyright Compliance Policy**

The District Court stated that even if it had determined that Napster met the criteria detailed in subsection 512(a), the RIAA still challenged Napster's compliance with the subsection 512(i) eligibility requirements.

First, it pointed to evidence that Napster had not adopted a written policy of which its users had notice until on or around February 7 2000 – two months after the filing of the lawsuit. Testimony showed that although Napster had a copyright compliance policy as early as October 1999, it was not reflected in any document, or communicated to any user.

The District Court noted that Congress did not intend to require a service provider to “investigate possible infringements, monitor its service or make difficult judgments as to whether conduct is or is not infringing”, but the notice requirement is designed to insure that flagrant or repeat infringers “know that there is a realistic threat of losing [their] access”.<sup>38</sup>

Further, the District Court stated that the fact that Napster developed and notified its users of a formal policy after the onset of the action should not moot RIAA's claim to monetary relief for past harms. The District Court held that without further documentation, Napster's argument that it has satisfied subsection 512(i) is “merely conclusory and does not support summary adjudication in its favor”.<sup>39</sup>

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<sup>36</sup> *ibid* at 8.

<sup>37</sup> *ibid* at 8.

<sup>38</sup> *House Report 1998* at 154.

<sup>39</sup> *Napster I* at 9.

The District Court noted that summary adjudication was also inappropriate because Napster had not shown that it reasonably implemented a policy for terminating repeat infringers.<sup>40</sup> When Napster was formally notified of infringing activity, it blocked the infringer's password so that they could not log on to the Napster service using that password.<sup>41</sup> The District Court noted that Napster did not block the IP addresses of infringing users, and it was disputed whether it was feasible or effective to do so.

The RIAA claimed that Napster wilfully turned a blind eye to the identity of its users because their anonymity allowed Napster to disclaim responsibility for copyright infringement. Hence, the RIAA contended, "infringers may readily reapply to the Napster system to recommence their infringing downloading and uploading of MP3 music files".<sup>42</sup>

The District Court noted that testimony also casted doubt on Napster's contention that blocking IP addresses was not a reasonable means of terminating infringers. This was especially so as Napster did ban the IP addresses of users who ran software "bots" on the service.<sup>43</sup>

Overall, the District Court held that Napster's copyright compliance policy was neither timely nor reasonable within the meaning of subparagraph 512(i)(A).<sup>44</sup>

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<sup>40</sup> See § 512(i)(A).

<sup>41</sup> See Kessler Declaration § 23.

<sup>42</sup> Plaintiffs' Brief at 24.

<sup>43</sup> A "bot" is a software program that performs actions continuously, in a robotic fashion.

<sup>44</sup> *Napster I* at 10.

#### **4. District Court's Discussion on the Preliminary Injunction**<sup>45</sup>

##### **A. Proof of Direct Infringement**

The District Court found that the RIAA established a prima facie case of direct copyright infringement. Virtually all Napster users engaged in the unauthorized downloading or uploading of copyrighted music. Napster users who uploaded file names to the search index for others to copy violated the RIAA's distribution rights.<sup>46</sup> Napster users who downloaded files containing copyrighted music violated the RIAA's reproduction rights.<sup>47</sup>

The District Court found that according to the evidence as much as 87% of the files available on Napster were copyrighted, and more than 70% were owned or administered by the RIAA.

##### **B. Fair Use and Substantial Non-Infringing Use**

Napster asserted the affirmative defences of fair use and substantial non-infringing use. The District Court ultimately found that any potential non-infringing use of the Napster service was "minimal or connected to the infringing activity, or both".<sup>48</sup> The District Court further noted, that the substantial or commercially significant use of the service was the unauthorised downloading and uploading of popular music, most of which was copyrighted.

##### **1. General Fair Use Analysis**

The District Court first conducted a general fair use analysis of Napster by referring to the list of fair use factors in section 107.<sup>49</sup>

The District Court found that the purpose and character of the use militated against a finding of fair use of Napster. Ascertaining whether the new work transformed the

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<sup>45</sup> *Napster II*.

<sup>46</sup> See § 106(3).

<sup>47</sup> See § 106(1).

<sup>48</sup> *Napster II* at 912.

<sup>49</sup> § 107.

copyrighted material satisfies the main goal of the first factor.<sup>50</sup> The District Court found that the RIAA “persuasively” argued that downloading MP3 files did not transform the copyrighted music.<sup>51</sup> In this respect the RIAA cited the *MP3.com* case.<sup>52</sup>

Also under the first factor, the court must determine whether the use is commercial. This would weigh against, but would not preclude, a determination of fairness.<sup>53</sup> The District Court held that “although downloading and uploading MP3 music files is not paradigmatic commercial activity, it is also not personal use in the traditional sense”.<sup>54</sup>

Even though the RIAA did not show that the majority of Napster users downloaded music for profit, according to the District Court, at the very least, a host user sending a file could not be said to engage in a personal use when distributing that file to an anonymous requester.<sup>55</sup> Moreover, the fact that Napster users got for free something they would ordinarily have to buy suggested that they reaped economic advantages from Napster use.

With respect to the second fair use factor the District Court found that the copyrighted musical compositions and sound recordings were creative in nature. As such they constitute entertainment, which cuts against a finding of fair use under the second factor.<sup>56</sup>

As to the third factor, the District Court found that it was undisputed that downloading or uploading MP3 music files involved copying the entirety of the copyrighted work. Such wholesale copying for private home use tips the fair use analysis in the RIAA’s favour if such copying is likely to adversely affect the market for the copyrighted material.<sup>57</sup>

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<sup>50</sup> See *Campbell* at 579.

<sup>51</sup> *Napster II* at 912.

<sup>52</sup> See *MP3.com* at 351.

<sup>53</sup> See *Campbell* at 584.

<sup>54</sup> *Napster II* at 912.

<sup>55</sup> *ibid* at 912.

<sup>56</sup> See *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985) at 563.

<sup>57</sup> See *Sony* at 449-50, 456.

Finally, the District Court found that the fourth factor – the effect on the potential market for the copyrighted work – also weighed against a finding of fair use. According to the District Court the RIAA produced evidence that Napster use harmed the market for its copyrighted musical compositions and sound recordings in at least two ways. First, it reduced CD sales among college students. Second, it raised barriers to the RIAA's entry into the market for the digital downloading of music.

## 2. Specific Fair Uses

Napster asserted several potential fair uses of the Napster service.

### (a) Sampling

Sampling in this context is where a user makes temporary copies of a work before purchasing it. The District Court found that sampling on Napster was not a personal use in the traditional sense that courts have recognised – copying which occurs within the household and does not confer any financial benefit on the user.<sup>58</sup> Instead, sampling on Napster amounted to obtaining permanent copies of songs that users would otherwise have to purchase. Not only this, but it also carried the potential for viral distribution to millions of people.

The District Court found that Napster had ignored critical differences between sampling songs on Napster and VCR usage in the *Sony* case.<sup>59</sup> First, while time-shifting TV broadcasts merely enabled a viewer to see a work which they had been invited to witness in its entirety free of charge, the RIAA almost always charge for their music. The RIAA only made promotional downloads available on a highly restricted basis, and copyright holders also earned royalties from streamed song samples on retail web sites.

Second, the majority of VCR purchasers in *Sony* did not distribute taped television broadcasts, but merely enjoyed them at home. In contrast, a Napster user who downloaded a copy of a song also made that song available to millions of other individuals, even if they eventually chose to purchase the CD. As such so-called

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<sup>58</sup> *Napster II* at 913.

sampling on Napster may have quickly facilitated unauthorised distribution at an exponential rate.

Napster's argument that using Napster to sample music was identical to visiting a free listening station in a record store, or listening to song samples on a retail web site, failed to convince the District Court because Napster users could keep the music they download. Whether or not they decide to buy the CD, they still obtained a permanent copy of the song. In contrast, many retail sites only offer thirty-to-sixty-second samples in streaming audio format, and promotional downloads from the RIAA are often 'timed-out' that is, they exist only for a short time on the user's computer.

The District Court found that the global scale of Napster usage and the fact that users avoided paying for songs that otherwise would not be free militated against a determination that sampling by Napster users constitutes personal or home use in the traditional sense.<sup>60</sup> The District Court held that even if the type of sampling supposedly done on Napster was a non-commercial use, the RIAA had demonstrated a substantial likelihood that it would adversely affect the potential market for their copyrighted works if it became widespread.

The RIAA claimed three general types of harm: a decrease in retail sales, especially among college students; an obstacle to its future entry into the digital downloading market; and a social devaluing of music stemming from its free distribution.

An expert for the RIAA concluded that the more songs Napster users downloaded, the more likely they were to reveal that such use reduced their music buying.<sup>61</sup> The District Court found that such evidence suggested that sampling and building a free music library through unauthorised downloading were not mutually exclusive. As such it was Napster users – not the RIAA – who controlled the music selection, the amount and the timing of the sampling activity, and who were able to keep songs after deciding not to purchase the music.

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<sup>59</sup> *ibid* at 913.

<sup>60</sup> *Napster II* at 914.

<sup>61</sup> See Jay Report at 4, 18.

On the other hand Napster maintained that sampling did not decrease retail music sales and may even stimulate them. To support this assertion, it relied heavily on evidence from an expert who concluded that consumers do not view MP3 files as perfect substitutes for CDs. This evidence included an assertion that “60% of online users who download free digital music do so to preview music before buying the CD”.<sup>62</sup>

The District Court found that this evidence relied on by Napster was unreliable and failed to rebut the RIAA’s showing of harm. As such, the District Court found that the RIAA had demonstrated a meaningful likelihood that the activity Napster called sampling did actually decrease retail sales of its music.<sup>63</sup>

Furthermore, the District Court noted that any potential enhancement of the RIAA’s sales due to sampling would not tip the fair use analysis conclusively in Napster’s favour. The courts have rejected the suggestion that a positive impact on sales negates the copyright holder’s entitlement to licensing fees or access to derivative markets. The District Court found the *MP3.com* opinion “especially instructive”.<sup>64</sup>

Similar to the RIAA in the *MP3.com* case, the RIAA here alleged that Napster use impeded its entry into the online market. Evidence showed that the RIAA had already expended considerable funds and effort to commence Internet sales and licensing for digital downloads. Furthermore, an economic expert opined that the availability of free MP3 files would reduce the market for authorised, commercial downloading.<sup>65</sup>

The District Court found that this point was corroborated by the fact that all 49 songs available for purchase on Sony’s web site could be obtained for free using Napster. The District Court found that if consumers chose to buy, rather than burn, entire CDs they were still more likely to obtain permanent copies of songs on Napster than buy them from Sony’s site or listen to streamed samples at other online locations.<sup>66</sup>

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<sup>62</sup> Fader Report § 74.

<sup>63</sup> *Napster II* at 914.

<sup>64</sup> *ibid* at 915.

<sup>65</sup> See Teece Declaration at 14-18.

<sup>66</sup> *Napster II* at 915.

The District Court concluded that, even assuming the sampling alleged in this case was a non-commercial use, the RIAA had demonstrated a meaningful likelihood that it would adversely affect their entry into the online market if it became widespread. Moreover, it deprived the RIAA of royalties for individual songs. Furthermore, the District Court held that the unauthorised downloading of the RIAA's music to sample songs would not constitute a fair use, even if it enhanced CD sales.<sup>67</sup>

(b) Space-shifting

Space-shifting in this context is where a user accesses a sound recording through the Napster system that they already own in audio CD format. The District Court was unconvinced that Sony applied to space-shifting. The District Court found that Napster "erroneously relies on the Ninth Circuit's assertion, in a case involving an inapplicable statute, that space-shifting constitutes non-commercial personal use".<sup>68</sup>

The District Court was making reference to the *Diamond* case and the applicability of the AHRA to the Rio.<sup>69</sup> The District Court found that the AHRA was irrelevant here as the RIAA had not brought their claim under the AHRA. Furthermore, the District Court noted that the Ninth Circuit did not hold in *Diamond* that the AHRA covered the downloading of MP3 files.<sup>70</sup>

The District Court noted that Napster also implied that space-shifting music was sufficiently analogous to time-shifting television broadcasts to merit the protection of *Sony*. Napster produced evidence that space-shifting – like time-shifting – leaves the value of the copyrights unharmed because it does not displace sales. This evidence also included the statistic that 70 percent of Napster users at least sometimes engage in space-shifting. This evidence had come from the same expert whom the District Court had held was unreliable.

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<sup>67</sup> *ibid* at 915.

<sup>68</sup> *ibid* at 915.

<sup>69</sup> See *Diamond II*.

<sup>70</sup> *Napster II* at 915.



Moreover, under either analysis, the District Court found that Napster was distinguishable from *Sony* because the Supreme Court determined in *Sony* that time-shifting represented the principal, rather than an occasional use of VCRs.<sup>71</sup>

Napster also contended that, if space-shifting was deemed to be a fair use, the staple article of commerce doctrine would preclude liability for contributory or vicarious infringement. This was because under *Sony*, the copyright holder cannot extend his monopoly to products “capable of substantial noninfringing uses”.<sup>72</sup>

However, the District Court held that Napster failed to show that space-shifting constituted a commercially significant use of Napster.<sup>73</sup> Instead, the District court found that the most credible explanation for the exponential growth of traffic to the website, was the vast array of free MP3 files offered by other users – not the ability of each individual to space-shift music he already owns. Thus, according to the District Court even if space-shifting was a fair use, it was not substantial enough to preclude liability under the staple article of commerce doctrine.

The District Court also declined to apply the staple article of commerce doctrine because, it found that Napster exercised ongoing control over its service.<sup>74</sup> In *Sony*, the defendant’s participation did not extend past manufacturing and selling the VCRs: “[t]he only contact between Sony and the users of the Betamax ... occurred at the moment of sale”.<sup>75</sup> Here, in contrast, Napster maintained and supervised an integrated system that users must access to upload or download files.

Indeed, the courts have distinguished the protection *Sony* offers to the manufacture and sale of a device from scenarios in which the defendant continues to exercise control over the device’s use.<sup>76</sup> As such the District Court found that Napster’s “facilitation of unauthorized file-sharing smacks of the contributory infringement in these cases, rather than the legitimate conduct of the VCR manufacturers”.<sup>77</sup>

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<sup>71</sup> See *Sony* at 421.

<sup>72</sup> *Sony* at 442.

<sup>73</sup> *Napster II* at 916.

<sup>74</sup> *ibid* at 916.

<sup>75</sup> *Sony* at 438.

<sup>76</sup> e.g. see *A&M Records, Inc. v. General Audio Video Cassettes, Inc.*, 948 F.Supp. 1449 (C.D. Cal. 1996) at 1456-57.

<sup>77</sup> *Napster II* at 917.

Consequently, Napster's control over the service, as opposed to mere manufacturing or selling, meant that the existence of a potentially unobjectionable use like space-shifting did not defeat the RIAA's claims.

(c) The New Artist Program

The District Court found that none of the other potential non-infringing uses of Napster precluded contributory or vicarious liability.

The New Artist Program was the permissive distribution of recordings by both new and established artists. Napster claimed that it engaged in the authorised promotion of independent artists, 98% of who are not represented by the RIAA. However, the District Court found that the New Artist Program did not represent a substantial or commercially significant aspect of Napster.<sup>78</sup> The evidence suggested that Napster initially promoted the availability of songs by major stars, as opposed to "page after page of unknown artists".<sup>79</sup>

The District Court noted that Napster's purported mission of distributing music by artists unable to obtain record-label representation appears to have been developed later. For example, Napster did not launch the web site aspect of its New Artist Program until after the RIAA filed suit, and as recently as July 2000, bona fide new artists constituted a very small percentage of music available on Napster. The District Court held that in any event, Napster's primary role of facilitating the unauthorised copying and distribution established artists' songs rendered Sony inapplicable.<sup>80</sup>

Furthermore, the District Court noted that the RIAA did not object to all of the supposedly non-infringing uses of Napster. Indeed, they did not seek an injunction covering chat rooms or message boards, the New Artist Program or any distribution authorised by copyright holders. Furthermore, the RIAA did not they seek to enjoin applications unrelated to the recording industry.

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<sup>78</sup> *ibid* at 917.

<sup>79</sup> *ibid* at 917.

<sup>80</sup> *ibid* at 917.

The District Court noted that the RIAA did not ask the court to shut down such satellite activities, the fact that these activities may be non-infringing did not decrease the RIAA's likelihood of success. The District Court therefore found that the RIAA had established a reasonable probability of proving third-party infringement.<sup>81</sup>

### **C. Contributory Copyright Infringement**

Once they had shown direct infringement by Napster users, the RIAA had to demonstrate a likelihood of success on their contributory infringement claim.

#### **1. Knowledge**

The District Court noted that the RIAA presented convincing evidence that Napster executives actually knew about and sought to protect use of the service to transfer illegal MP3 files.<sup>82</sup> For example, a document authored by co-founder Sean Parker mentioned the need to remain ignorant of users' real names and IP addresses since they were exchanging pirated music.

The same document stated that, in bargaining with the RIAA, Napster would benefit from the fact that Napster was not just making pirated music available but also pushing demand. The District Court found that "these admissions suggest that facilitating the unauthorized exchange of copyrighted music was a central part of Napster, Inc.'s business strategy from the inception".<sup>83</sup>

The RIAA also demonstrated that Napster had actual notice of direct infringement because the RIAA informed it of more than 12,000 infringing files. Although Napster, purportedly terminated the users offering these files, the songs were still available using the Napster service, as were the copyrighted works which the RIAA had further identified.

US copyright law does not require actual knowledge of specific acts of infringement. Accordingly, the District Court rejected Napster's argument that titles in the Napster

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<sup>81</sup> *Napster II* at 917.

<sup>82</sup> *ibid* at 918.

<sup>83</sup> *ibid* at 918.

directory cannot be used to distinguish infringing from non-infringing files and thus that they could not know about infringement by any particular user of any particular musical recording or composition.<sup>84</sup>

The District Court found that at the very least, Napster had constructive knowledge of its users' illegal conduct.<sup>85</sup> Some Napster executives boasted recording industry experience, and Napster did not dispute that it possessed enough sophistication about intellectual property laws to sue a rock band that copied its logo. Furthermore, the evidence indicated that Napster executives downloaded infringing material to their own computers using the service and promoted the website with screen shots listing infringing files.

The District Court held that such conduct satisfied the objective test for constructive knowledge – Napster had reason to know about infringement by third parties.<sup>86</sup> The District Court also noted that this finding also puts an end to Napster's "persistent" attempts to invoke the protection of the subsection 512(d) safe harbour of the DMCA.

## 2. Material Contribution

The District Court held that the RIAA had shown that Napster materially contributed to the infringing activity.<sup>87</sup>

In *Fonovisa*, the Ninth Circuit held the copyright holders' allegations were "sufficient to show material contribution" because "it would have been difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet".<sup>88</sup>

The District Court agreed with the RIAA's characterisation that in this case Napster is essentially an Internet swap meet albeit more technologically sophisticated.<sup>89</sup> The swap meet provided support services like parking, booth space, advertising, and

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<sup>84</sup> *Napster II* at 918.

<sup>85</sup> *ibid* at 919.

<sup>86</sup> *ibid* at 919.

<sup>87</sup> *ibid* at 919.

<sup>88</sup> See *Fonovisa* at 264.

<sup>89</sup> *Napster II* at 920.

clientele. Here, Napster supplied the proprietary software, search engine, servers, and means of establishing a connection between users' computers. Without the support services Napster provided, its users could not find and download the music they wanted with the ease of which Napster boasted.

The District Court noted that several contributory infringement cases involving online services were in accord with its conclusion that Napster materially contributed to the infringing activity.<sup>90</sup>

In keeping with its view that Napster played a more active role in facilitating file-sharing than an ISP acting as a passive conduit, the District Court found it probable that Napster materially contributed to unlawful conduct. As such the District Court held that the RIAA had established a reasonable likelihood of success on their claim of contributory infringement.<sup>91</sup>

#### **D. Vicarious Copyright Infringement**

Next, the District addressed the RIAA's claim for vicarious copyright infringement.

##### **1. The Right and Ability to Supervise**

In *Fonovisa*, the swap meet operator satisfied the first element of vicarious liability because it had the right to terminate vendors at will, and because it also controlled customers' access and promoted its services.<sup>92</sup> The District Court noted that although Napster argued that it is technologically difficult, and perhaps infeasible, to distinguish legal and illegal conduct, the RIAA had shown that Napster supervises its use.<sup>93</sup>

Indeed, the District Court noted that Napster itself took pains to inform the court of its improved methods of blocking users about whom copyright holders complained.<sup>94</sup> This, the District Court found, was tantamount to an admission that it could have, and

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<sup>90</sup> e.g. *Netcom* at 1375.

<sup>91</sup> *Napster II* at 920.

<sup>92</sup> See *Fonovisa* at 262.

<sup>93</sup> *Napster II* at 920.

<sup>94</sup> See Defendant's Opposition Brief at 19.

sometimes did, police its service. Moreover, the District Court noted that a defendant need not exercise its supervisory powers to be deemed capable of doing so.<sup>95</sup>

The District Court therefore found that Napster had the right and ability to supervise its users' infringing conduct.<sup>96</sup>

## 2. Direct Financial Interest

The District Court found that the RIAA had already shown a reasonable likelihood that Napster had a direct financial interest in the infringing activity.<sup>97</sup> Citing several cases, the RIAA contended that direct financial benefit did not require earned revenue, so long as the defendant had economic incentives for tolerating unlawful behaviour.<sup>98</sup>

The District Court noted that although Napster did not generate any revenue, its internal documents stated that it would earn revenues directly from increases in its user-base. In turn, the Napster service attracted more and more users by offering an increasing amount of music for free. The District Court noted that Napster hoped to "monetize" its user base through one of several generation revenue models.<sup>99</sup>

The District Court found that this was similar to the type of direct financial interest the Ninth Circuit found sufficient for vicarious liability in *Fonovisa*, where the swap meet's revenues flowed directly from customers drawn by the availability of music at bargain basement prices.<sup>100</sup>

Relying on *Netcom*, Napster maintained that it did not have a policy of ignoring infringement, and that even if it did, its non-infringing uses lured consumers to its service.<sup>101</sup> The District Court found that Napster's latter contention, for which it

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<sup>95</sup> See *Gershwin* at 1161-63.

<sup>96</sup> *Napster II* at 921.

<sup>97</sup> *ibid* at 921.

<sup>98</sup> e.g. *Major Bob Music v. Stubbs*, 851 F.Supp. 475 (S.D.Ga. 1994).

<sup>99</sup> *Napster II* at 921.

<sup>100</sup> See *Fonovisa* at 263-64.

<sup>101</sup> *Netcom* at 1376-77.

provided no factual support, did not square with its prediction that the requested injunction would effectively put Napster out of business.<sup>102</sup>

If many of Napster's commercially significant uses were non-infringing, an injunction limited to unlawful activity would not have such a dire impact. The District Court found that Napster's "representations about the primacy of its legitimate uses thus appear disingenuous".<sup>103</sup> Indeed, the District Court found that "the ability to download myriad popular music files without payment seems to constitute the glittering object that attracts Napster's financially-valuable user base".<sup>104</sup>

As such the District Court held that the RIAA had shown a reasonable likelihood of success on their claim of vicarious infringement.

#### **E. The District Court's Conclusion**

The District Court held that because the RIAA had shown a reasonable likelihood of success on the merits of their contributory and vicarious copyright infringement claims, they were entitled to a preliminary injunction against Napster.

As such Napster was preliminarily enjoined "from engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings, protected by either federal or state law, without express permission of the rights owner".<sup>105</sup> This injunction applied to all such works that the RIAA owned and was not limited to those listed in their complaint.

The District Court held that the RIAA had shown persuasively that they own the copyrights to more than 70% of the music available on the Napster system. The District Court held that because Napster has contributed to illegal copying on a scale that is without precedent, it bears the burden of developing a means to comply with

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<sup>102</sup> *Napster II* at 921-922.

<sup>103</sup> *ibid* at 922.

<sup>104</sup> *ibid* at 922.

<sup>105</sup> *ibid* at 927.

the injunction. The District Court held that Napster had to insure that no work owned by the RIAA which neither Napster nor its users have permission to use or distribute is uploaded or downloaded on Napster. The District Court ordered the RIAA to cooperate with Napster in identifying the works to which they own copyrights.

## **F. The Preliminary Injunction**

The District Court ordered Napster to comply with the preliminary injunction by midnight on July 28 2000. However, before that deadline the Ninth Circuit stayed the preliminary injunction pending a review of the District Court's decision.

## **5. Ninth Circuit's Discussion on the Preliminary Injunction<sup>106</sup>**

The Ninth Circuit then reviewed the District Court's decision to grant the preliminary injunction. The Ninth Circuit began its discussion by agreeing with the District Court that the RIAA had established a prima facie case of direct infringement. Next the Ninth Circuit addressed Napster's fair use defences and the District Court's corresponding analysis.

### **A. Fair Use**

Overall the Ninth Circuit agreed with the District Court's conclusion that Napster users are not fair users.<sup>107</sup>

#### **1. The District Court's General Fair Analysis**

With regard to the "purpose and character" of the use, the District Court first concluded that downloading MP3 files did not transform the copyrighted work. The Ninth Circuit found this conclusion to be supportable.<sup>108</sup>

This "purpose and character" element also required the District Court to determine whether the allegedly infringing use was commercial or non-commercial.<sup>109</sup> The

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<sup>106</sup> *Napster III*.

<sup>107</sup> *ibid* at 1014-1015.

<sup>108</sup> *ibid* at 1015.



Ninth Circuit agreed with the District Court's finding that the infringing use was a commercial use and thus weighed against a finding of fair use.<sup>110</sup> The Ninth Circuit stated that in the present case, commercial use would be demonstrated by a showing that repeated and exploitative unauthorised copies of copyrighted works were made to save the expense of purchasing authorised copies. The Ninth Circuit held that the RIAA had made such a showing before the District Court.

In relation to the nature of the use, the Ninth Circuit found no error in the District Court's conclusion. With regard to the third factor, the portion used, the Ninth Circuit agreed with the District Court that Napster users engage in "wholesale copying" of copyrighted work because file transfer necessarily "involves copying the entirety of the copyrighted work".<sup>111</sup> However, the Ninth Circuit did note that under certain circumstances, a court will conclude that a use is fair even when the protected work is copied in its entirety.<sup>112</sup>

With regard to the fourth fair use factor, the effect of use on the market, the Ninth Circuit ultimately concluded that the District Court made sound findings related to Napster's deleterious effect on the present and future digital download market. Moreover, The Ninth Circuit stated that the lack of harm to an established market cannot deprive the copyright holder of the right to develop alternative markets for the works.

The Ninth Circuit found that here, similar to *L.A. Times v. Free Republic* and *MP3.com*, the record supports the District Court's finding that the "record company plaintiffs have already expended considerable funds and effort to commence Internet sales and licensing for digital downloads".<sup>113</sup> Having digital downloads available for free on the Napster system necessarily harms the RIAA's attempts to charge for the same downloads.

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<sup>109</sup> See *Campbell* at 584-85.

<sup>110</sup> *Napster III* at 1015.

<sup>111</sup> *Napster II* at 913.

<sup>112</sup> e.g. see *Sony* at 449-50.

<sup>113</sup> *Napster II* at 915. See *L.A. Times v. Free Republic*, 54 U.S.P.Q.2d 1453 (C.D.Cal. 2000) at 1469-71.

The Ninth Circuit next addressed Napster's identified uses of sampling and space-shifting.

## 2. Specific Fair Uses

### (a) Sampling

Napster contended that its users download MP3 files to 'sample' the music in order to decide whether to purchase the recording. The District Court determined that sampling remains a commercial use even if some users eventually purchase the music. The Ninth Circuit found no error in the District Court's determination.<sup>114</sup>

The Ninth Circuit found that the RIAA had established that they were likely to succeed in proving that even authorised temporary downloading of individual songs for sampling purposes is commercial in nature. The Ninth Circuit found that the record supports the District Court's preliminary determinations on this issue. Firstly, that the more music that sampling users download, the less likely they are to eventually purchase the recordings on audio CD. Secondly, that even if the audio CD market is not harmed, Napster has adverse effects on the developing digital download market.<sup>115</sup>

Napster further argued that the District Court erred in rejecting its evidence that the users' downloading of 'samples' increases or tends to increase audio CD sales. The Ninth Circuit found that the District Court, however, correctly noted that any potential enhancement of the RIAA's would not tip the fair use analysis in Napster's favour. The Ninth Circuit agreed that increased sales of copyrighted material attributable to unauthorised use should not deprive the copyright holder of the right to license the material. Furthermore, a positive impact in one market, here the audio CD market, should not deprive the copyright holder of the right to develop identified alternative markets, here the digital download market.

### (b) Space-Shifting

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<sup>114</sup> *Napster III* at 1018.

Napster asserted that the Ninth Circuit in *Diamond* had already held that space-shifting of musical compositions and sound recordings was a fair use. However, the Ninth Circuit concluded that the District Court did not err when it refused to apply the ‘shifting’ analyses of *Sony* and *Diamond*.

The Ninth Circuit found both *Diamond* and *Sony* to be inapplicable because the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public. Indeed, the time or space-shifting of copyrighted material in those cases exposed the material only to the original user.

The Ninth Circuit stated that conversely, it is obvious that once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes “available to millions of other individuals”, not just the original CD owner.<sup>116</sup> Here the Ninth Circuit cited the *MP3.com* case in support.<sup>117</sup>

As such the Ninth Circuit found no error in the District Court’s determination that the RIAA would likely succeed in establishing that Napster users did not have a fair use defence.<sup>118</sup> Accordingly, next the Ninth Circuit addressed whether Napster was secondarily liable for contributory infringement and vicarious infringement.

## **B. Contributory Liability**

The Ninth Circuit found that the District Court did not err in finding that the RIAA would establish Napster’s liability as a contributory infringer. The Ninth Circuit found that Napster, by its conduct, knowingly encourages and assists the infringement of the RIAA’s copyrights.<sup>119</sup>

### **1. Knowledge**

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<sup>115</sup> *Napster III* at 1018.

<sup>116</sup> *ibid* at 1019.

<sup>117</sup> See *MP3.com* at 351-52.

<sup>118</sup> *Napster III* at 1019

<sup>119</sup> *ibid* at 1020

The Ninth Circuit found that it was apparent from the record that Napster had knowledge, both actual and constructive, of direct infringement. Napster claimed that it is nevertheless was protected from contributory liability because of the *Sony* case. The Ninth Circuit disagreed.

The Ninth Circuit observed that Napster's actual, specific knowledge of direct infringement renders the *Sony* case of limited assistance to Napster. The Ninth Circuit stated that it was compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system.<sup>120</sup>

The *Sony* Court refused to hold the manufacturer and retailers of VCRs liable for contributory infringement despite evidence that such machines could be and were used to infringe the plaintiffs' copyrighted television shows. Sony stated that if liability "is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material".<sup>121</sup> The *Sony* Court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and 'substantial noninfringing uses'.

The Ninth Circuit held that it was bound to follow Sony, and would not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe the RIAA's copyrights. The Ninth Circuit departed from the reasoning of the District Court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses.<sup>122</sup>

The Ninth Circuit found that the District Court improperly confined the use analysis to current uses, ignoring the Napster system's capabilities. The Ninth Circuit stated that consequently, the District Court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use.

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<sup>120</sup> *Napster III* at 1020.

<sup>121</sup> *Sony* at 439.

<sup>122</sup> *Napster III* at 1021.

Nonetheless, the Ninth Circuit found that regardless of the number of Napster's infringing versus noninfringing uses, the evidentiary record here supported the District Court's finding that the RIAA would likely prevail in establishing that Napster knew or had reason to know of its users' infringement of the RIAA's copyrights.

The Ninth Circuit found that this analysis was similar to that of *Netcom*, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement.<sup>123</sup>

*Netcom* considered the potential contributory copyright liability of a computer bulletin board operator whose system supported the posting of infringing material.<sup>124</sup> The court, in denying *Netcom*'s motion for summary judgement of noninfringement and plaintiff's motion for judgement on the pleadings, found that a disputed issue of fact existed as to whether the operator had sufficient knowledge of infringing activity.<sup>125</sup>

The *Netcom* court determined that for the operator to have sufficient knowledge, the copyright holder must "provide the necessary documentation to show there is likely infringement".<sup>126</sup> If such documentation was provided, the court reasoned that *Netcom* would be liable for contributory infringement because its failure to remove the material "and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation" in distribution of copyrighted material.<sup>127</sup>

The Ninth Circuit agreed that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.<sup>128</sup> Conversely, absent any specific information that identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure

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<sup>123</sup> *Netcom* at 1371.

<sup>124</sup> *ibid* at 1374.

<sup>125</sup> *ibid* at 1374-75.

<sup>126</sup> *ibid* at 1374.

<sup>127</sup> *ibid* at 1374.

<sup>128</sup> *Napster III* at 1021.

of the system allows for the exchange of copyrighted material.<sup>129</sup> The Ninth Circuit noted that to enjoin simply because a computer network allows for infringing use would, in its opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.<sup>130</sup>

The Ninth Circuit nevertheless concluded that sufficient knowledge existed to impose contributory liability when linked to demonstrated infringing use of the Napster system. The Ninth Circuit found that the record supported the District Court's finding that Napster had actual knowledge that specific infringing material was available using its system, that it could block access to the system for suppliers of the infringing material, and that it failed to remove the material.

## 2. Material Contribution

The Ninth Circuit agreed with the District Court that Napster provided "the site and facilities" for direct infringement.<sup>131</sup> The Ninth Circuit found that the District Court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement.

The Ninth Circuit affirmed the District Court's conclusion that the RIAA demonstrated a likelihood of success on the merits of the contributory copyright infringement claim.<sup>132</sup>

## C. Vicarious Liability

Next, the Ninth Circuit turned to the question of whether Napster engaged in vicarious copyright infringement. Importantly, the Ninth Circuit noted that *Sony*'s "staple article of commerce" analysis had no application to Napster's potential liability for vicarious copyright infringement.<sup>133</sup>

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<sup>129</sup> See *Sony* at 436, 442-43.

<sup>130</sup> *Napster III* at 1021.

<sup>131</sup> See *Fonovisa* at 264.

<sup>132</sup> *Napster III* at 1022.

<sup>133</sup> *Napster III* at 1022.

According to the Ninth Circuit the issues of Sony's liability under the doctrines of direct infringement and vicarious liability were not before the Supreme Court. However, the Supreme Court did recognise that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn".<sup>134</sup> The Ninth Circuit noted that consequently, when the *Sony* court used the term "vicarious liability" it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement.<sup>135</sup>

### 1. Financial Benefit

The Ninth Circuit agreed with the District Court's conclusion that Napster financially benefits from the availability of protected works on its system.<sup>136</sup> Financial benefit exists where the availability of infringing material "acts as a 'draw' for customers".<sup>137</sup> The Ninth Circuit stated that ample evidence supports the District Court's finding that Napster's future revenue is directly dependent upon "increases in userbase".<sup>138</sup> More users register with the Napster system as the "quality and quantity of available music increases".<sup>139</sup>

### 2. Supervision

The District Court determined that Napster has the right and ability to supervise its users' conduct.<sup>140</sup> The Ninth Circuit agreed in part.

The ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.<sup>141</sup> The Ninth Circuit found that the RIAA had demonstrated that Napster retains the right to control access to its system. Napster had an express reservation of rights policy. The Ninth Circuit held that to escape imposition of vicarious liability, the reserved right to police must

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<sup>134</sup> See *Sony* at 435 n. 17.

<sup>135</sup> See *ibid* at 435.

<sup>136</sup> *Napster III* at 1023.

<sup>137</sup> *Fonovisa* at 263-64.

<sup>138</sup> *Napster III* at 1023.

<sup>139</sup> *Napster II* at 902.

<sup>140</sup> *ibid* at 920-21.

<sup>141</sup> See *Fonovisa* at 262.

be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.

The Ninth Circuit found that the District Court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The Ninth Circuit held that the District Court, however, failed to recognise that the boundaries of the premises that Napster “controls and patrols” are limited. The Ninth Circuit stated that put differently, Napster’s reserved “right and ability” to police is cabined by the system’s current architecture. The Napster system does not ‘read’ the content of indexed files, other than to check that they are in the proper MP3 format.

Napster, however, has the ability to locate infringing material listed on its search indices, and the right to terminate users’ access to the system. The Ninth Circuit held that the file name indices, therefore, are within the “premises” that Napster has the ability to police. The Ninth Circuit stated that it recognised that the files are user-named and may not match copyrighted material exactly. For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files, otherwise no user could ever locate any desired music.

The Ninth Circuit held that Napster’s failure to police the system’s “premises” combined with a showing that Napster financially benefited from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability.<sup>142</sup>

#### **D. The Preliminary Injunction**

The Ninth Circuit noted that the District Court correctly recognised that a preliminary injunction against Napster’s participation in copyright infringement is not only warranted but required.<sup>143</sup> The Ninth Circuit believed however, that the scope of the injunction needed modification in light of its opinion.

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<sup>142</sup> *Napster III* at 1024.

<sup>143</sup> *Napster III* at 1027.



Specifically, it reiterated that contributory liability may potentially be imposed only to the extent that Napster: “(1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the Napster system; and (3) fails to act to prevent viral distribution of the works”.<sup>144</sup> The Ninth Circuit noted that the mere existence of the Napster system, absent actual notice and Napster’s demonstrated failure to remove the offending material, is insufficient to impose contributory liability.<sup>145</sup>

The Ninth Circuit held that conversely, Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index.<sup>146</sup> The Ninth Circuit found that Napster had both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files.

The Ninth Circuit held that the preliminary injunction which it stayed was overbroad because it placed on Napster the entire burden of ensuring that no “copying, downloading, uploading, transmitting, or distributing” of the RIAA’s works occur on the system.<sup>147</sup> The Ninth Circuit stated that it now placed the burden on the RIAA to provide notice to Napster of copyrighted works and files containing such works available on the Napster system before Napster had the duty to disable access to the offending content.

The Ninth Circuit also stated that Napster also bears the burden of policing the system within the limits of the system. The Ninth Circuit, recognised “that this is not an exact science in that the files are user named”.<sup>148</sup> The Ninth Circuit held that in crafting the injunction on remand, the District Court should recognise that Napster’s system does not currently appear to allow Napster access to users’ MP3 files.

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<sup>144</sup> See *Netcom* at 1374-75.

<sup>145</sup> See *Sony* at 442- 43.

<sup>146</sup> *Napster III* at 1027.

<sup>147</sup> *ibid* at 1027.

<sup>148</sup> *ibid* at 1027.

## E. Ninth Circuit's Conclusion

The Ninth Circuit directed that the preliminary injunction fashioned by the District Court prior to the appeal by Napster was to remain stayed until it was modified to conform to the requirements of its opinion.

## 6. The Aftermath

With all the drama in the courtroom in the *Napster* case there was a lot going on outside the courtroom as well. After the Ninth Circuit's stay of the Preliminary Injunction, as the public awaited a judicial decision, the landscape of the case was rapidly changing. Napster itself, once the alleged darling of music pirates, became part of the corporate structure of a major record label.

On October 31 2000, Napster and Bertelsmann AG, the majority shareholder of BMG Music and a plaintiff in the action against Napster, announced a surprising strategic alliance.<sup>149</sup> Bertelsmann AG agreed to loan Napster US\$50 million to be used by Napster to develop a subscription-based membership service.

The new service is intended to preserve the current Napster peer-to-peer file sharing experience, while providing royalty payments to recording artists, songwriters, recording companies and music publishers. Although neither company has commented in detail on the revenue model to be used, Napster has stated that a monthly fee of US\$4.95 for use of the file sharing application is under consideration.<sup>150</sup> Bertelsmann AG has agreed that, once the new service is implemented, it will drop its current lawsuit against Napster.

Leunig comments that "no doubt Napster's enormous user base and available music database, which is touted as the largest in the world, played a pivotal role in Bertelsmann AG's decision to forge a partnership with Napster".<sup>151</sup>

<sup>149</sup> Sheila M. Leunig, *A&M Records, Inc., v. Napster, Inc.: The Fate Of Peer-To-Peer File Sharing Technology*, 5 No. 2 Intell. Prop. L. Bull. 1 (2000) at 9.

<sup>150</sup> Daniel P. Dolan, *The Big Bumpy Shift: Digital Music via Mobile Internet* <[http://www.firstmonday.dk/issues/issue5\\_12/dolan/](http://www.firstmonday.dk/issues/issue5_12/dolan/)>.

<sup>151</sup> Sheila M. Leunig, op.cit at 9.

Others followed as well and Edel, a large independent record label, also announced its intention to form a similar alliance with Napster in January 2001.<sup>152</sup>

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<sup>152</sup> Anthony Shadid, *Edel Music AG Forms Alliance with Napster; Independent Label to Join New Network*, Boston Globe, January 3, 2001 at C2.

## Chapter 6 – Analysis of *Diamond*

*“The world goes ahead because each of us builds on the work of our predecessors. A dwarf standing on the shoulders of a giant can see farther than the giant himself”.*<sup>1</sup>

### 1. Introduction

For six years after its enactment, scrutiny of the AHRA was limited to academic critique. The only case to consider the AHRA during this time held that it was inapplicable.<sup>2</sup>

The *Diamond* case was the first judicial interpretation of the AHRA. It has been noted that the litigation in this case “exposed inherent weaknesses in the Act, especially in light of the newly enacted DMCA and the continuing advances in Internet technology”.<sup>3</sup>

Nevertheless, it has been argued that while the recording industry’s concerns about piracy remain legitimate, “the Ninth Circuit correctly ruled for *Diamond* on both legal and policy grounds”.<sup>4</sup> It has been submitted that the *Rio* did not infringe any of the rights created under the CA or the AHRA. Instead use of the *Rio* represented “a classic instance of fair use, a fundamental policy which should not be trumped by industry-specific goals”.<sup>5</sup>

<sup>1</sup> Zechariah Chafee, Jr., *Reflections on the Law of Copyright: I*, 45 Colum. L. Rev. 503, 511 (1945).

<sup>2</sup> See *Abkco Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60, 65- 66 (2d Cir. 1996).

<sup>3</sup> Aaron L. Melville, *The Future Of The Audio Home Recording Act Of 1992: Has It Survived The Millennium Bug?*, 7 B.U. J. Sci. & Tech. L. 372 (2001) at 389.

<sup>4</sup> Ines G. Gonzalez, *Recording Industry Association Of America, Inc. v. Diamond Multimedia Systems, Inc.*, 15 Berkeley Tech. L.J. 67 (2000) at 78.

<sup>5</sup> *ibid* at 78-79.

## **2. The District Court**

### **A. General**

Some have noted that the “Rio decisions certainly strained the AHRA”.<sup>6</sup> The District Court addressed the ‘digital audio recording device’ issue by looking beyond the Act’s plain language and searching the legislative history, “but limited the import of its analysis by relying on the lack of irreparable harm”.<sup>7</sup> Others have stated that the District Court “inappropriately rejected Diamond’s argument after erroneously consulting the legislative history”.<sup>8</sup>

### **B. Problematic Reasoning**

The District Court’s reasoning can be seen as being problematic for two reasons.

#### **1. Interpretation**

First, within the decision itself, the District Court articulated the guidelines it would follow in interpreting the AHRA. The District Court had no precedent to guide its interpretation of the AHRA, so it began its analysis with the “familiar canon of statutory construction that the starting point for interpreting a statute is the language of the statute itself. Absent a clearly expressed legislative intention to the contrary, that language must ordinarily be regarded as conclusive”.<sup>9</sup>

The District Court subsequently found that although the Rio’s “two-step process technically satisfies the definition of ‘serial copying’, the AHRA does not directly prohibit serial copying”.<sup>10</sup> Barthel comments that this statement by the District Court is “confusing” given the fact that section 1002(a) clearly articulates three specific

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<sup>6</sup> Aaron L. Melville, op.cit at 394.

<sup>7</sup> *ibid* at 394.

<sup>8</sup> Stephen W. Webb, op.cit at 21.

<sup>9</sup> *Diamond I* at 628.

<sup>10</sup> *ibid* at 631.

means by which a 'digital audio recording device' must effectively implement serial copy controls.<sup>11</sup>

Furthermore, Barthel finds "even more perplexing" the District Court's use of the Senate Report to reconcile this "incongruity".<sup>12</sup> The District Court believed that it was nonsensical to suggest that the Rio had to send "copyright and generation status information".<sup>13</sup> The full Senate Report passage that the District Court made reference to reads: "Devices that receive digital audio transmissions sent without copyright and generation status information shall indicate that copyright is asserted over the transmitted audio material and that the generation status is original".<sup>14</sup>

According to Barthel a neutral interpretation of this passage suggests that a 'digital audio recording device' that receives audio transmissions without the proper copyright and generation status information "must somehow compensate for the erroneously sent transmission by indicating that copyright is asserted over the material and that the generation status is original".<sup>15</sup>

Thus, according to Barthel, a neutral interpretation of the full Senate Report citation would have required the Rio to comply with subsection 1002(a)(2) and incorporate a functional equivalent to the SCMS. This certainly seems to make sense.

By tracing the District Court's two-step approach for statutory interpretation, it can be seen that the District Court conceded that the Rio satisfied the statutory definition of 'serial copying'. According to Barthel it was the second step taken by the District Court – the absence of "a clearly expressed legislative intention to the contrary" – that proves "troublesome".<sup>16</sup>

By ignoring the first half of the Senate Report citation, the District Court was able to "twist this statement and use it to support its position that the AHRA does not directly

<sup>11</sup> Ted J. Barthel, *RIAA v. Diamond Multimedia Systems, Inc.: The Sale Of The Rio Player Forces The Music Industry To Dance To A New Beat*, 9 Depaul-Lca J. Art & Ent. L. 279 (1999) at 305.

<sup>12</sup> *ibid* at 305.

<sup>13</sup> *Diamond I* at 631.

<sup>14</sup> *Senate Report* at 26.

<sup>15</sup> Ted J. Barthel, *op.cit* at 305.

<sup>16</sup> *ibid* at 305.



prohibit serial copying”.<sup>17</sup> In so doing, the District Court was able to equate a Rio without SCMS to a Rio with SCMS. Barthel argues that citation “to the full Senate Report sentence would not have allowed the court to accomplish such a deed”.<sup>18</sup>

## 2. Royalty Payments

Secondly, the District Court’s use of royalty payments as a remedy for damages caused by the Rio’s non-incorporation of SCMS causes concern.

In relation to the extent that the RIAA were injured through an illicit use of the Rio, the District Court sated that this was precisely the type of injury for which the royalty provisions were adopted.<sup>19</sup> According to Barthel a further inquiry into the legislative history would have indicated that a link between royalty payments and SCMS compliance is “unsupported”.<sup>20</sup>

Indeed, in discussing the purposes behind the copy control provisions, the Senate Report states: “The prohibition on actions under section 1002 is not dependent upon compliance with other requirements under this chapter. Thus, for example, the protection granted by section 1002 applies to all digital audio recording devices and media regardless of whether applicable royalty payments have been made for a device or medium or whether a device includes SCMS”.<sup>21</sup>

Barthel argues that in other words, regardless of whether Diamond makes royalty payments on the Rio player, compliance with the SCMS provision is required.<sup>22</sup> Thus, it seems that the District Court’s use of royalty payments as a remedy for not incorporating SCMS in the Rio is “at odds with the legislative intent behind the AHRA”.<sup>23</sup>

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<sup>17</sup> Ted J. Barthel, op.cit at 305.

<sup>18</sup> *ibid* at 306.

<sup>19</sup> *Diamond I* at 632.

<sup>20</sup> Ted J. Barthel, op.cit at 306.

<sup>21</sup> *Senate Report* at 52.

<sup>22</sup> Ted J. Barthel, op.cit at 306.

<sup>23</sup> *ibid* at 306.

### **3. The Ninth Circuit**

#### **A. General**

While the Ninth Circuit did rely more on the merits than the District Court, Melville argues that “it shortsightedly stated that the ‘clear’ language of the statute removed any doubt that the Rio was not an infringing device”.<sup>24</sup> Furthermore, the Ninth Circuit’s conception of the term “transmission” in the context of the AHRA was “too narrow”.<sup>25</sup> Allemann proposes that a more appropriate definition of the term would have led to a different outcome.<sup>26</sup>

#### **B. The Limited Applicability of the AHRA**

##### **1. The Act**

Gonzalez believes that the Ninth Circuit correctly concluded that the Rio was not subject to the AHRA because it constructed its definition of a ‘digital audio recording device’ by examining the statutory language. According to Gonzalez, the Ninth Circuit relied on the “explicitly defined” terms in section 1001 of the AHRA “instead of substituting its own interpretation as the District Court did”.<sup>27</sup>

The Ninth Circuit determined that a hard drive was excluded from the definition of ‘digital musical recordings’. Consequently, as the Rio obtained its input from a hard-drive, it could not reproduce a ‘digital musical recording’ and therefore could not be a ‘digital audio recording device’. According to Gonzalez this “conclusion makes sense because the Rio does not enable the serial copying that the AHRA was designed to prevent”.<sup>28</sup>

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<sup>24</sup> Aaron L. Melville, op.cit at 394.

<sup>25</sup> Alex Allemann, *Manifestation Of An AHRA Malfunction: The Uncertain Status Of MP3 Under Recording Industry Association Of America v. Diamond Multimedia Systems, Inc.*, 79 Tex. L. Rev. 189 (2000) at 191.

<sup>26</sup> *ibid* at 191.

<sup>27</sup> Ines G. Gonzalez, op.cit at 79.



## 2. The Legislative History

Gonzalez also argues that the legislative history supports the Ninth Circuit's reading of the statutory language, which excludes the classification of the Rio as a 'digital audio recording device'.<sup>29</sup>

Section 1001 established a new type of material object embodying musical works – a 'digital musical recording'. According to Gonzalez, this served two purposes.<sup>30</sup> Firstly to delineate clearly the types of devices and media subject to the AHRA. Secondly, to ensure that devices dedicated to the recording of motion pictures, television programs, or multimedia works would not be covered by the AHRA.

As such, the US Congress defined 'digital musical recordings' to include CDs, DATs, audio-cassettes, albums, digital compact cassettes and mini-discs.<sup>31</sup> The US Congress also considered that a computer hard-drive containing programs or databases would be excluded from the definition of a 'digital musical recording'.<sup>32</sup>

Thus, Gonzalez believes that the legislative history supports the Ninth Circuit's analysis that the Rio is not a 'digital audio recording device' because it cannot reproduce a 'digital musical recording'.<sup>33</sup>

## 3. Purpose and Policy

Gonzalez also argues that from a policy perspective the Ninth Circuit's decision reflects the primary purpose behind the AHRA. That is, "to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use".<sup>34</sup> This right to make copies for personal use, Gonzalez explains, "reflects the fundamental policy of fair use underlying copyright law".<sup>35</sup>

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<sup>28</sup> Ines G. Gonzalez, op.cit at 79.

<sup>29</sup> *ibid* at 79.

<sup>30</sup> *ibid* at 79.

<sup>31</sup> See *Senate Report* at 46.

<sup>32</sup> See *ibid* at 46.

<sup>33</sup> Ines G. Gonzalez, op.cit at 79-80.

<sup>34</sup> See *Senate Report* at 30.

<sup>35</sup> Ines G. Gonzalez, op.cit at 80.

#### 4. The Loophole

##### (a) The Loophole

The Ninth Circuit's interpretation of the AHRA potentially leaves a "loophole" for MP3 music pirates to get through.<sup>36</sup> As was pointed out by the District Court, pirates could evade "regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard drive".<sup>37</sup> This did not seem to bother the Ninth Circuit, which believed that a computer simply did not fit the definition because a computer's main purpose was not to make recordings.

In addressing the loophole seemingly created by excluding devices like the Rio from coverage by the AHRA, "the Ninth Circuit merely cited a bit of legislative history and the AHRA's purpose".<sup>38</sup> However, Allemann argues that while the "unnecessary loophole" found to exist by the District Court is a correct literal reading of the AHRA, the result does not correspond with the underlying purpose of the statute.<sup>39</sup>

##### (b) DMCA Conflicts

Melville comments that the DMCA's anti-circumvention measures "only complicate the issue further".<sup>40</sup>

The AHRA defines various recording devices to exclude computers, hard-drives, and subsequent to the Ninth Circuit's opinion, devices like the Rio. Consequently, because of the 'loophole' created by the Ninth Circuit holding, the SCMS becomes unnecessary in any device found to be a 'computing device'.

Melville notes that if "courts continue to apply the AHRA in a limited fashion, every person choosing to use a computer to record music will arguably violate the DMCA's

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<sup>36</sup> Kristine J. Hoffman, op.cit at 174.

<sup>37</sup> *Diamond I.*

<sup>38</sup> Aaron L. Melville, op.cit at 394.

<sup>39</sup> Alex Allemann, op.cit at 191.

<sup>40</sup> Aaron L. Melville, op.cit at 395.

anti-circumvention language”.<sup>41</sup> Thus, according to Melville, the AHRA as interpreted contradicts the DMCA.

The AHRA loophole allows a PC to ‘launder’ copyright-protection encoded digital music because computers are not required to implement the SCMS, even “though such a computer could clearly be seen to function as a recording device”.<sup>42</sup> Thus, under the AHRA, a computer can be used to legally circumvent the SCMS copyright protections placed on any second-generation copy simply by copying the song to the hard-drive.

However, as Melville observes out this appears to be unlawful under the DMCA because a protection system encoding is effectively being circumvented.<sup>43</sup> The DMCA clearly makes it unlawful to circumvent a technological measure that controls access to a protected work.<sup>44</sup>

Indeed, as Melville points out this tension must be resolved to provide consumers of music and computer technology with clear guidance as to which music recording and playback activities are lawful.<sup>45</sup> Such a tension between two pieces of legislation causes uncertainty for both consumers and manufacturers.

### (c) Solution to the Loophole

It has been suggested that an earlier Ninth Circuit decision may help the RIAA’s cause.<sup>46</sup> In *Mai Systems Corporation v. Peak Computer, Inc.*, Mai sued Peak over copyright infringement of computer software.<sup>47</sup> Mai sought an injunction to keep Peak from running Mai software for its customers, using unlicensed software, and loaning Mai computers with Mai software to Peak’s customers.<sup>48</sup>

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<sup>41</sup> Aaron L. Melville, op.cit at 395.

<sup>42</sup> ibid at 395.

<sup>43</sup> ibid at 395.

<sup>44</sup> See § § 1201-1205.

<sup>45</sup> Aaron L. Melville, op.cit at 395.

<sup>46</sup> Kristine J. Hoffman, op.cit at 174.

<sup>47</sup> *Mai Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (“*Mai*”).

<sup>48</sup> See ibid at 513-514.

The Ninth Circuit pointed out that in order for *Mai* to succeed, it would have to show that there was copying as defined under the CA.<sup>49</sup> This was a problem in this case, because it was unclear at that time whether copying occurred when a software program was transferred from a permanent storage medium to a computer's Random Access Memory ('RAM').<sup>50</sup>

Despite the fact that a copy is only temporarily fixed in the computer's RAM, the Ninth Circuit ruled that "loading of copyrighted software into RAM creates a 'copy' of that software in violation of the Copyright Act".<sup>51</sup> According to the Ninth Circuit, copying software onto computer chips and then selling the chips violated section 117 CA, which only protects copies if they are made for archival purposes or if they are necessary for the use of a computer program.<sup>52</sup>

Hoffman notes that this conclusion "is logical, because Copyright law is meant to protect the copyright holder from the sale of copied material".<sup>53</sup> Finally, the Ninth Circuit pointed out that it was also generally accepted that loading software onto a computer is considered to be copying under the law.<sup>54</sup>

Hoffman proposes that while "the *Mai* court specifically discussed the issue of copying software, the same principles can be applied to the copying of digital recordings".<sup>55</sup> Accordingly, the RIAA could use the Ninth Circuit's approach in *Mai* in relation to the use of computers as copying devices in order to get around the obstacles created by the *Diamond* court.<sup>56</sup>

The *Mai* court pointed out that loading software onto a computer is generally accepted as copying. According to Hoffman, the RIAA would need to argue that downloading digital music files onto a computer is also a form of copying, very much like the loading of software.<sup>57</sup> Clearly, there is a strong argument in favour of drawing such an analogy. Downloading a music file, whether it be on to the hard-

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<sup>49</sup> See *Mai* at 517.

<sup>50</sup> See *ibid* at 519.

<sup>51</sup> See *ibid* at 518.

<sup>52</sup> See *ibid* at 518.

<sup>53</sup> Kristine J. Hoffman, *op.cit* at 175.

<sup>54</sup> See *Mai* at 519.

<sup>55</sup> Kristine J. Hoffman, *op.cit* at 175.

<sup>56</sup> *ibid* at 175.

drive or RAM of a computer, is essentially the same as loading software onto a computer. “Clearly, the downloaded music file is not the original and, therefore, must be a copy in violation of Copyright law”.<sup>58</sup>

Hoffman believes that if “the RIAA were able to persuade a court to take this approach as a general rule, then it should be successful in getting around the computer exception relied on by the court in *Diamond*”.<sup>59</sup>

#### **4. Copyright Action and Fair Use**

##### **A. The RIAA’s Position Gets Worse**

As Berger notes, what “was at first a fairly significant setback for the RIAA became a massive loss”.<sup>60</sup> After the District Court’s opinion, *Diamond* would at least have had to pay royalties on the Rio, providing some consolation to the RIAA. After the Ninth Circuit opinion however, the RIAA was deprived of any relief.

Furthermore, at first glance the Ninth Circuit’s decision was favourable to the online music industry.<sup>61</sup> The decision sent a message to manufacturers and distributors of technologies, that by allowing the downloading of music through PCs, they were not subject to the royalty payments and serial copy protection requirements imposed by the AHRA.

In fact, soon after the Ninth Circuit’s decision, many new MP3 players were announced by other manufacturers. These products included not just hand-held portables like the Rio, but also automobile MP3 players, MP3 components for the home stereo, and CD players which play CDs encoded with MP3-formatted music in addition to the regular formatted audio CDs.<sup>62</sup>

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<sup>57</sup> Kristine J. Hoffman, op.cit at 175.

<sup>58</sup> ibid at 175.

<sup>59</sup> ibid at 175.

<sup>60</sup> Eric Berger, *The Legal Problems Of The MP3*, 18 Temp. Envtl. L. & Tech. J. 1 (1999) at 14.

<sup>61</sup> William Sloan Coats, et al., op.cit at 302.

<sup>62</sup> See Wired News, *Meet the Double Decker CD*, August 6, 1999 <<http://www.wired.com/news/politics/0,1283,21155,00.html>>.

In short, everything the RIAA sought to avert became reality after its court losses. The Rio was released, given a welcome reception by consumers and the press, MP3 became wildly popular, and other electronics firms were encouraged to enter the market.

### **B. The Possibility of Copyright Infringement Actions**

However, the Ninth Circuit's decision does not expressly immunise those manufacturers and distributors from copyright infringement.<sup>63</sup> Consequently, the Ninth Circuit's conclusion that the Rio was not a 'digital audio recording device' and therefore not subject to the AHRA can be seen as an advantage for the RIAA. This is because the RIAA may now sue Diamond and other manufacturers for copyright violations.<sup>64</sup>

The suit the RIAA brought against Diamond, though motivated by copyright infringements, was not an action based in copyright but for violations of the AHRA. Had the Rio been a 'digital audio recording device', the RIAA would not have been able to bring a copyright suit against Diamond, as the AHRA expressly forbids such suits.<sup>65</sup> Since the Rio is not subject to the AHRA, that Act's 'no-copyright-suit' ban does not apply. Thus, it has been suggested that the Ninth Circuit's decision may be viewed as permitting actions against "technologies like Rio based on direct, contributory or vicarious copyright infringement theories".<sup>66</sup>

However, it has been commented that the Ninth Circuit's decision "probably does not represent decisive approval of such infringement actions".<sup>67</sup> Furthermore, as Berger notes, such suits are not easy to win.<sup>68</sup> Such a suit would have to be based on contributory infringement. A manufacturer like Diamond does not directly infringe any copyrights because Diamond does not copy or distribute any copyrighted work. The RIAA would in effect be saying that Diamond facilitates infringement by consumers.

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<sup>63</sup> William Sloan Coats, et al., op.cit at 302.

<sup>64</sup> See § 1008.

<sup>65</sup> *ibid.*

<sup>66</sup> William Sloan Coats, et al., op.cit at 302.

<sup>67</sup> *ibid* at 302.

<sup>68</sup> Eric Berger, op.cit at 15.

### C. Substantial Non-Infringing Uses

For *Diamond* to defeat any contributory infringement action it must show that the Rio is capable of substantial non-infringing uses. The Rio has two potentially substantial non-infringing use arguments; space-shifting and the ability to copy legitimate MP3s.

#### 1. Space-Shifting

In *Sony* the substantial non-infringing use was private, non-commercial time-shifting in the home.<sup>69</sup> The Supreme Court found that time-shifting was a fair use.<sup>70</sup> Thus the VCR manufacturers won and the movie industry lost.

In the Rio case, the Ninth Circuit court noted that devices like the Rio merely ‘space-shifts’ already existing files on the user’s computer.<sup>71</sup> The Ninth Circuit concluded that this kind of copying was “paradigmatic non-commercial personal use entirely consistent with the purposes of the Act”.<sup>72</sup>

The Ninth Circuit court seemed to consider space-shifting as a fair use, analogising it to the “time-shifting” of television programming in the home video context. Thus, it has been noted that the *Diamond* decision may result in fair use being recognised as a valid defence to any potential claims of direct, contributory or vicarious infringement in Rio-like technology cases.<sup>73</sup>

It would be very difficult for the RIAA to overcome such a “ringing endorsement” of space-shifting.<sup>74</sup> So while available, a copyright action for contributory infringement after *Sony* may not be a viable option. Indeed, there has not been any talk of the RIAA bringing such an action.

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<sup>69</sup> See *Sony* at 451.

<sup>70</sup> See *ibid* at 454-55.

<sup>71</sup> *Diamond II* at 1079.

<sup>72</sup> See *ibid* at 1079.

<sup>73</sup> William Sloan Coats, et al., *op.cit* at 302-303.

<sup>74</sup> Eric Berger, *op.cit* at 16.

(a) The *Sony* Analogy

Consequently, the issue of an analogy with the recording of copyrighted music, as in *Diamond*, and the recording of home movies, as in *Sony*, becomes relevant. There are a number of points on which an analogy between 'space-shifting' and 'time-shifting' can or cannot be made.

Both opinions involve the concept of '-shifting' and in this respect the *Sony* opinion is "substantially analogous" to the *Diamond* opinion.<sup>75</sup> The Supreme Court in *Sony* ruled that time-shifting was fair use of the copyrighted programming. As such this should apply to 'space-shifting'.

Further, in overruling the Court of Appeals, the Supreme Court stated that any substantial potential for legitimate use would invalidate claims of the threat of illegal use. The Supreme Court further held that the sale of home VCRs to the general public did not constitute contributory infringement of copyrights because the movie industry failed to show that time-shifting of programs would cause any significant harm to the value of the copyrights.<sup>76</sup>

Webb comments that while "this would seem to bode well for the recording industry because it accounts for the hundreds of millions of dollars lost annually, these harmful effects haven't been localized".<sup>77</sup> Furthermore, Webb notes that since the music industry suffered these losses prior to the advent of digital recording technology, it would be difficult to argue that a significant amount of music piracy occurs through the MP3 format.<sup>78</sup>

However, as Webb points out, there "are a few important aspects of each case that diverge".<sup>79</sup> In the case of the VCR's time-shifting of free commercial programming, the programming was offered freely. Whereas, in relation to MP3 players, the copyrighted music is usually not free, but for sale.

<sup>75</sup> Stephen W. Webb, *RIAA v Diamond Multimedia Systems: The Recording Industry Attempts To Slow The Mp3 Revolution - Taking Aim At The Jogger Friendly Diamond Rio*, 7 Rich. J.L. & Tech. 5 (2000) at 33.

<sup>76</sup> *Sony* at 456.

<sup>77</sup> Stephen W. Webb, *op.cit* at 31.

<sup>78</sup> *ibid* at 31.



Also, the music industry had already begun to feel the negative effect that this new method of storing and playing music brings.<sup>80</sup> Whereas in *Sony*, there was no more than an “inference” that the general population would copy movies illegally. Further, in *Sony* the copied material would be of substantially lower quality than the one it was copied from.<sup>81</sup> In *Diamond*, the fear of digitally perfect musical files being serially copied posed much more of a dilemma for the recording industry. In *Sony* serial copying was not a concern at that particular point in time.

So Webb argues that this is another distinguishing point between *Sony* and *Diamond*. The *Sony* court was essentially faced with the issue of whether it would use copyright law to regulate the prospect of illegal use.<sup>82</sup> To this extent the Supreme Court was not impressed with the prospect that the illegal use could exceed the legal use of the VCR.<sup>83</sup> Whereas in *Diamond* it was apparent that the illegal use could exceed the legal use of time-shifting of digital music.

## 2. Not All MP3s Are Illegal

Another “good” argument that *Diamond* has for substantial non-infringing use is that not all MP3s are illegitimate.<sup>84</sup> Indeed, as the Ninth Circuit noted in *Diamond*, “the Internet also supports a burgeoning traffic in legitimate audio computer files”.<sup>85</sup> Some independent artists distribute their music entirely in MP3 format. Other artists, including some established artists, use MP3 as free samples for marketing purposes intended to entice listeners to purchase that artist’s CD recordings.

Furthermore some web sites are buying up old music catalogues of established artists and offering them in MP3 format for free or for sale. For example, the deceased

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<sup>79</sup> Stephen W. Webb, op.cit at 33.

<sup>80</sup> e.g. see *Diamond II* at 1074.

<sup>81</sup> Stephen W. Webb, op.cit at 33.

<sup>82</sup> *ibid* at 34.

<sup>83</sup> *Sony* at 444.

<sup>84</sup> Eric Berger, op.cit at 16.

<sup>85</sup> *Diamond II* at 1074.

reggae star Bob Marley is one artist whose musical works are legally available in the MP3 format.<sup>86</sup>

#### **D. The Uncertainty is Back**

Allemann argues that while *Diamond* may be a correct literal reading of the AHRA, “the result does not conform with the underlying purpose of the statute”.<sup>87</sup> As Allemann points out the Ninth Circuit’s technical analysis effectively returns the issue of audio home recording to its status prior to the enactment of the AHRA.<sup>88</sup> That is, to a status when the legitimacy of home audio recording remained ambiguous under the general provisions of the CA.

Further, by holding that the Rio device was not subject to the AHRA, the Ninth Circuit “necessarily” implies that infringement suits based on the use of such devices are not prohibited.<sup>89</sup> Instead, any infringement issues associated with such devices are by default governed by the CA. This was the same situation regarding the general issue of audio home recordings before the enactment of the AHRA, which established its legitimacy when using a ‘digital audio recording device’.

Thus, the previously unresolved issue of whether home audio recording qualifies as fair use under the CA becomes relevant once again. As Allemann argues such “uncertainty, and the potential for increased suits, will do more to harm the introduction of new recording technology than to help it”.<sup>90</sup>

However, as was shown above, manufacturers such as Diamond would have a good chance of establishing ‘space-shifting’ as a fair use. Not only this, but since Allemann made this comment the market for MP3 players and new recording technology has boomed, without any further legal action against MP3 player manufacturers.

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<sup>86</sup> See Siddiq Bello, *MCY.com Gets Bob Marley Catalog*, 8 MP3 Impact, February 28, 1999 <[http://www.addictme.com/PDF/mp3impact\\_8.pdf](http://www.addictme.com/PDF/mp3impact_8.pdf)>.

<sup>87</sup> Alex Allemann, *op.cit* at 191.

<sup>88</sup> *ibid* at 191-192.

<sup>89</sup> *ibid* at 191.

<sup>90</sup> *ibid* at 191.

On the flip-side however, the *Napster* case seemingly indicates that the fair use defence is unlikely to be successful in these contributory infringement suits. On the other hand it can be argued that the facts of *Napster* can be materially distinguished from those in *Diamond*.

Furthermore, in the future as new devices offer flexible output functionality similar to those devices covered by the AHRA, it is likely that the 'space-shifting' argument will lose some of its force and the threat of various infringement claims will become much more real again.<sup>91</sup>

## **5. Technicalities**

### **A. Technicalities**

It has been commented that the Ninth Circuit's decision was one based on "technicalities".<sup>92</sup> The District Court found that the AHRA was applicable to the Rio because, in its opinion, the Rio fit the definition of a 'digital audio recording device'. On the other hand, the District Court based its interpretation of the legislative history on what it called the "purpose" of the AHRA.<sup>93</sup> As Scharton points out, ultimately this decision by the District Court was the key finding overturned by the Ninth Circuit, and exemplifies the weakness of the AHRA.<sup>94</sup>

The Ninth Circuit found that as the Rio uploaded only MP3 files that were not 'digital musical recordings', and 'digital audio recording devices' store 'digital music recordings', the Rio could not itself be a 'digital audio recording device'.<sup>95</sup> Both the District Court and Ninth Circuit recognised how ridiculous this was. Indeed, as Scharton comments it "is hard to imagine a more appropriate target for the SCMS requirement than an MP3 player".<sup>96</sup>

<sup>91</sup> William Sloan Coats, et al., op.cit at 303.

<sup>92</sup> Nathan Scharton, *MP3 In Y2K: The Audio Home Recording Act And Other Important Copyright Issues For The Year MM*, 20 N. Ill. U. L. Rev. 745 (2000) at 761.

<sup>93</sup> See *Diamond I* at 630.

<sup>94</sup> Nathan Scharton, op.cit at 763.

<sup>95</sup> See *Diamond II* at 1076.

<sup>96</sup> Nathan Scharton, op.cit at 764.

Nevertheless, the courts are not, and should not attempt to be, “super-legislatures”, imposing order and meaning where there is none.<sup>97</sup> As such, it seems that the AHRA does not provide the ease of intellectual property rights protection that the CA allows, and in the case of MP3 technology, fails to provide any copyright protection to copyright holders at all.

It seems that the recording industry has, through the AHRA, “hoisted itself on its own technological petard”.<sup>98</sup> As was stated before, the AHRA was a result of extensive lobbying by the recording industry. Now, one decade later it is effectively useless in the fight against MP3 piracy. The AHRA’s own ‘technicalities’ are primarily a result of the inability of people generally to predict the future of technology. As such, as the law stands now, copyright holders must live with computer hard-drives acting as laundromats for illegally copied music.<sup>99</sup>

## B. The AHRA’s Purpose

Melville comments that “these initial decisions construing the AHRA provide little guidance as to how the Act is to adequately deal with evolving technology”.<sup>100</sup> He argues that the central issue should be the US Congress’s goal in passing the AHRA.

The AHRA’s purpose was to legalise home recording and create a modest royalty payment system for those affected by lost sales due to the perfect nature of digital recordings.<sup>101</sup> Melville points out that there was no indication that the AHRA was to be a broad anti-piracy statute.<sup>102</sup> In fact, the text of the AHRA does not even mention the terms “piracy”, “pirated”, or “pirate”.<sup>103</sup> Even, the Senate Report on the AHRA does not mention any variation of “pirate”.<sup>104</sup> Whereas, on the other hand, the Ninth Circuit in *Diamond* opinion employed variations of the word “pirate” more than fifteen times.<sup>105</sup>

<sup>97</sup> Nathan Scharton, op.cit at 764.

<sup>98</sup> See A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 Notre Dame L. Rev. 47 (1989) at 97.

<sup>99</sup> Nathan Scharton, op.cit at 764-765.

<sup>100</sup> Aaron L. Melville, op.cit at 394.

<sup>101</sup> See *Senate Report* at 30-33.

<sup>102</sup> Aaron L. Melville, op.cit at 395.

<sup>103</sup> See § § 1001-1010.

<sup>104</sup> See *Senate Report*.

<sup>105</sup> As pointed out by Melville - Aaron L. Melville, op.cit at 395 at footnote 183.

Melville questions whether this was “judicial activism, the work of industry interest groups, or a justified change in viewpoints due to the technology-driven times in which we live?”<sup>106</sup> However, whatever the underlying intention may be, it now seems that problems caused by advances in digital recording technology are far beyond the scope of the AHRA.

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<sup>106</sup> Aaron L. Melville, *op.cit* at 395.

## Chapter 7 – Analysis of *MP3.com*

“...the brave new world of rip and burn and beam and stream”.<sup>1</sup>

### 1. Introduction

The *MP3.com* decision addressed the liability of an online commercial service that effectively tried to promote or facilitate the ‘private’ copying of sound recordings. The results of the *MP3.com* decision seemed to suggest that Internet businesses would be ill-advised if they failed to compensate or secure permission from authors, performing artists and other copyright owners for the online delivery of protected music.

In cases like *MP3.com*, it is important to distinguish between the technology of online music delivery in general and the activities of these businesses in particular. The facts that surround *MP3.com* brings up a different business model that appears to be, on its face, a legal way to listen and store a person’s musical library. In reality it involved ‘simple old-fashioned piracy’.

Some legal experts have concluded that the *MP3.com* ruling was significant because “it confirmed that existing copyright law applied to the digital arena”.<sup>2</sup> Moreover, others have commentated that this opinion should also set the standard for future lawsuits involving music and the digital market place.<sup>3</sup> Further, the decision is important for members of the movie industry, as they soon will have to start fighting the same battles as the recording industry.

Another significance of *MP3.com* is that it went the furthest in striking down the use of new and innovative technology because it was the first case of its kind to reach the damages stage. These damages will affect the way the marketplace will look in the future for Internet businesses like *MP3.com*. It is possible that no Internet business

<sup>1</sup> *UMG Recordings, Inc. v. MP3.com, Inc.*, 2000 Copr.L.Dec. P 28,141 (S.D.N.Y. 2000) at 1.

<sup>2</sup> Martin Peers, *MP3.com Has Infringed on Copyrights Of Five Record Firms, Judge Decides*, Wall St. J., May 1, 2000, at A3.

will exist on the same level that pre-trial customers of MP3.com had grown accustomed to.

## **2. Old-fashioned Piracy?**

The MP3.com decision turned on the District Court's view that MP3.com was engaged in simple, old-fashioned piracy – the copying of the RIAA's copyrighted material for its commercial gain.

Indeed, the fact that MP3.com had to copy CDs by converting them to MP3 format and saving the resulting files on its servers in order to run its service made the case a good fit for a traditional infringement analysis. As Kramarsky points out in "the world of digital distribution, however, cases are rarely so simple".<sup>4</sup>

A closer, more technical analysis of the nature of the services offered by MP3.com reveals that some of its functions may have been legitimate. As such, it is important to separate the two services that were in operation.

### **A. The Instant Listening Service**

Copyright protection is conferred upon fixation, therefore copyrighted music converted to MP3 files is necessarily protected under copyright law.<sup>5</sup> Mullen argues that even though an MP3 file that is downloaded or streamed is capable of being perceived and reproduced for the purposes of the CA, it is unclear why the copyright holder's exclusive reproduction and distribution rights were violated by MP3.com's Instant Listening service.<sup>6</sup>

Firstly, on the facts the subscriber had to have purchased the CD from an 'e-tailer' who was able to verify, with a high degree of certainty, ownership of the CD.<sup>7</sup>

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<sup>3</sup> Gregory Hunt, *In A Digital Age, The Musical Revolution Will Be Digitalized*, 11 Alb. L.J. Sci. & Tech. 181 (2000) at 199.

<sup>4</sup> Stephen M. Kramarsky, op.cit at 26.

<sup>5</sup> Sheldon W. Halpern, et al., *Fundamentals of United States Intellectual Property Law: Copyright, Patent, and Trademark*, Kluwer Academic Publishers, 1999 at 41.

<sup>6</sup> Kathryn I. Mullen, "The Rich Man's Eight Track": *Mp3 Files, Copyright Infringement, And Fair Use*, 5 Marq. Intell. Prop. L. Rev. 237 (2001) at 245.

<sup>7</sup> *ibid* at 245.

Secondly, the Instant Listening service was only intended for personal use – every user must have a password to retrieve songs from their My.MP3.com account.<sup>8</sup> As Mullen points out, MP3.com's only role was to transfer the contents of the CD to the user's My.Mp3.com account.<sup>9</sup> To that end, MP3.com acted only to provide free online storage, in a digitised form, of an individual's music library.<sup>10</sup>

Furthermore, Mullen argues that by selling a CD the copyright holder is exercising their exclusive right to reproduce and distribute copies and thereby necessarily acquiescing to the fact that the purchaser is buying the CD for the purpose of listening to it.<sup>11</sup> As the CA does not limit sound recordings to specific media, as long as the CD is purchased, the copyright holder is compensated for the right to listen to the contents of the CD.<sup>12</sup>

As such, according to Mullen, the Instant Listening service does not appear to violate any of the copyright holders' exclusive rights under section 106 of the CA.<sup>13</sup> The Instant Listening service merely allows music to be listened to through a new listening medium.<sup>14</sup>

## **B. The Beam-it Service**

In the Beam-it service the copyrighted music converted to MP3 format was also necessarily protected under copyright law. As with the Instant Listening service, MP3 files created with this service were capable of being perceived and reproduced for the purposes of the CA. However, as Mullen points out there is a factor that distinguishes the Beam-it service from the Instant Listening service. This difference consequently renders the Beam-it service an infringement of copyright. This important distinguishing factor is the fact that the Instant Listening service users accessed MP3 files contained on a purchased CD, whereas the Beam-it services users did not necessarily own the music they wanted to store and stream.<sup>15</sup>

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<sup>8</sup> Kathryn I. Mullen, *op.cit* at 245.

<sup>9</sup> *ibid* at 245.

<sup>10</sup> *ibid* at 245.

<sup>11</sup> *ibid* at 245.

<sup>12</sup> *ibid* at 245.

<sup>13</sup> *ibid* at 245.

<sup>14</sup> *ibid* at 245.

<sup>15</sup> *ibid* at 246.



MP3.com, through the Beam-it service, violated copyright law by reproducing and distributing copyrighted works because MP3.com offered the copyrighted works for Beam-it users to stream. Similar to the Instant Listening service, MP3 files were being copied to MP3.com's servers and then released to users upon satisfaction of Beam-it's verification process.

The problem as Mullen points out is that the Beam-it verification process was unreliable.<sup>16</sup> Other companies, such as MyPlay.com, also offer digital music storage accounts along the same lines as MP3.com, but these services require that the user actually upload the file to be stored. This in turn requires that the file actually be 'ripped' from the CD to the companies' servers. The ripping and uploading process can take up to an hour per disc, depending on the speed of one's microprocessor and Internet connection.

With the Beam-it service, MP3.com sought to distil the process to the time needed for one of its servers to gather a few lines of text from the user's CD.<sup>17</sup> To accomplish this MP3.com designed a system by which, when the user beams his or her copy of an album, what is streamed back to him on later occasions was MP3.com's wholly separate copy of the same album. As Skolnik comments, this fact compounded the disingenuous reality of the beaming terminology.<sup>18</sup>

This meant that it was relatively easy for a Beam-it service user to put works they did not own into their digital locker simply by beaming a friend's copy of an album. Skolnik comments, that separately but equally disingenuous, was MP3.com's "blithe disregard" of this possibility.<sup>19</sup> This is especially so in light of the fact that a user could beam a great number of borrowed albums in a short period of time.

As Skolnik points out the "court had no misunderstanding of this fact".<sup>20</sup> It has been noted that although not stated on the record, the fact that there was no way to ensure

<sup>16</sup> Kathryn I. Mullen, op.cit at 246.

<sup>17</sup> See Warren Cohen, *Wallet Out, MP3.com Finds Many Upturned Hands*, Inside, June 14, 2000 <<http://wjcohen.home.mindspring.com/music/publishers.htm>>.

<sup>18</sup> Dan Skolnik, op.cit at 25.

<sup>19</sup> ibid at 25.

<sup>20</sup> ibid at 25.

that the CDs users inserted were their own, and not borrowed from someone else for the purpose, probably played a decisive role in the District Court's decision.<sup>21</sup> Indeed, the District Court when addressing MP3.com's defence that the Beam-it service stimulates sales of physical recordings because the user must place the CD into the CD-ROM drive, characterised the user's task as "actually or purportedly" demonstrating ownership of the disc.<sup>22</sup>

Even though some may argue that the Beam-it service was a system designed to protect copyrights, it is "really a system designed to obscure the way it violates copyrights".<sup>23</sup> The possibility of 'leakage' was not present with the Instant Listening service, because through its 'e-tailers' MP3.com, could verify ownership as the recordings were purchased online.<sup>24</sup> However, there was no 'e-tailer' or third party through which ownership of a CD could have been verified for the Beam-it service users.

This is where the two services differed and why Mullen argues that the Instant Listening service did not appear to violate any of the copyright holders' exclusive rights, but the Beam-it service did.<sup>25</sup>

### **3. Fair Use**

#### **A. The Market Harm Factor**

Generally speaking the District Court's fair use analysis is supported by most commentators.<sup>26</sup>

Ginsburg notes, with respect to the market harm fair use factor, that the *MP3.com* court, like the *Free Republic* court, emphasised that "a further market that directly derives from reproduction of the plaintiff's copyrighted works"<sup>27</sup> remains within the

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<sup>21</sup> John B. Lunseth II, *E-Commerce Disputes: Legislation And Litigation Are The Brave New World*, 68 Def. Couns. J. 280 (2001) at 295.

<sup>22</sup> See *MP3.com*.

<sup>23</sup> Dan Skolnik, op.cit at 25.

<sup>24</sup> Kathryn I. Mullen, op.cit at 246.

<sup>25</sup> ibid at 246.

<sup>26</sup> e.g. See Kathryn Mullen Kathryn I. Mullen, op.cit at 254.

<sup>27</sup> *MP3.com*.

copyright owner's control.<sup>28</sup> Indeed, Ginsburg comments that where *Free Republic* underlined the defendants' incursion on new markets that the copyright owner was already exploiting, *MP3.com* "stressed plaintiff's right to control".<sup>29</sup>

Furthermore, MP3.com might have hit upon the clever business idea of enhancing consumer convenience, but that did not mean the enhancement should be free of copyright holders' charges or control.<sup>30</sup>

Ginsburg also notes that the *MP3.com* ruling is consistent with the Second Circuit's recent ruling in *Infinity*. There, the Second Circuit rejected a fair use defence to the retransmission of radio broadcasts over phone lines. The *Infinity* case involved non-transformative audience shifting, because the defendant made the plaintiff's broadcasts available, without alteration, to distant listeners. The *Infinity* court ruled that the copyright holder was entitled to control who could access its transmissions. In *Infinity*, the defendant's activities disrupted that control and enabled the defendant to replace the plaintiff in distant markets.

*MP3.com*, like *Free Republic*, is a further rejection of what Ginsburg calls "redistributive" fair use.<sup>31</sup> This an aspiring doctrine that would excuse the broad unpaid distribution of works on the dual grounds that copyright must not rein in the progress of new technologies of communication, and that the public is enriched by greater exposure to works that it enjoys.<sup>32</sup> Instead, according to the *Free republic* and *MP3.com* courts, when technology opens up new markets and wider audiences it is not fair use to bring the work to more people by means of unlicensed copying or unauthorised public performance.<sup>33</sup>

On the other hand it could be argued that the MP3.com did not claim to bring the recorded music to more listeners, but only in theory to those people who had already purchased the original CDs.<sup>34</sup> Nonetheless, in order to make the work available to the same audience in different places, MP3.com was not in fact streaming its users' own

<sup>28</sup> Jane C. Ginsburg (2000), op.cit at 24.

<sup>29</sup> ibid at 24-25; *MP3.com* at 352.

<sup>30</sup> Jane C. Ginsburg (2000), op.cit at 25.

<sup>31</sup> ibid at 25.

<sup>32</sup> ibid at 25.

<sup>33</sup> ibid at 25.

copies, but copies it had made itself in a massive database. Again, “this substantial and systematic copying condemned its activities”.<sup>35</sup>

Copying in order to create a single library corresponding to its subscribers’ combined collections may have made sense from a business point of view, as a single library avoids duplication across collections, and thus saves space on the server.<sup>36</sup> It may also have facilitated faster uploading and delivery. However, creating a faster, cheaper operation by means of copying does not enjoy a strong claim to fair use, particularly when the more efficient operation gives it an advantage over competitors who lose time and incur extra transactions costs by seeking copyright licenses.<sup>37</sup>

### B. Space-shifting

Some have commented that there is a lack of any persuasive explanation in the District Court’s decision of why MP3.com’s space-shifting into another medium was any less worthy of the District Court’s indulgence than was the space-shifting in *Diamond* or the time-shifting in *Sony*.<sup>38</sup>

At first glance such a proposition seems valid. However, as Ginsburg points out *MP3.com* did not involve space-shifting of the kind seemingly sanctioned as a fair use in the *Diamond* case.<sup>39</sup> The distinguishing factor seems to be that in *Diamond* the end users themselves effected the copying from their computers onto the space-shifting device.<sup>40</sup> Whereas in *MP3.com* all of the copying was actually being done by MP3.com, not its users. Furthermore, MP3.com was not copying the user’s CDs, but its own. Skolnik argues along the same lines, as to the importance of this distinguishing factor.<sup>41</sup>

As Ginsburg points out, as the facts are distinguishable the *MP3.com* court did not need to address the question of whether end-user copying and storage would have

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<sup>34</sup> Jane C. Ginsburg (2000), op.cit at 25.

<sup>35</sup> *ibid* at 25.

<sup>36</sup> *ibid* at 25-26.

<sup>37</sup> *ibid* at 26.

<sup>38</sup> Richard B. Graves III, *Private Rights, Public Uses, And The Future Of The Copyright Clause*, 80 Neb. L. Rev. 64 (2001) at 85.

<sup>39</sup> Jane C. Ginsburg (2000), op.cit at 28.

<sup>40</sup> *ibid* at 28.

been an infringement.<sup>42</sup> Nor, did it have to address the issue of whether an Internet service that offered individual-access celestial storage lockers for end-users to stock themselves would be an infringer.<sup>43</sup> As such a 'space-shifting' analysis was not required on the specific facts of *MP3.com*.

### C. Other Space-shifting Scenarios

It is interesting to note Ginsburg's view that if MP3.com's customers could themselves lawfully send their CDs to MP3.com, then MP3.com's copying might be excused as the functional equivalent of each user creating a separate library of files.<sup>44</sup> Needham seems to agree, commenting that it "technically would be fair use, as the consumer has the right to listen to his or her music from any location".<sup>45</sup>

On the other hand, even if a user might enjoy a space-shifting privilege to copy his or her CDs to a website, whose access is restricted to themselves, it does not necessarily follow that the privilege shields a third party who goes into the business of creating the personalised digital library and supplying access to it.<sup>46</sup>

Here, Ginsburg points out as an analogy that the courts have stated that educational institutions may enjoy a fair use privilege to photocopy from protected works for purposes of teaching. However, the courts have nonetheless held that it is not fair use for an off-campus, for profit, photocopy shop to prepare course packs at the institution's behest, without the copyright owner's authorisation.<sup>47</sup>

The analogy seems clear and would logically apply to MP3.com as well. MP3.com is clearly a commercial intermediary. Furthermore, at the time of the *MP3.com* case, MP3.com carried advertising and it was a possibility that it may begin charging subscription fees.<sup>48</sup> As such where there is a commercial relationship between the

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<sup>41</sup> Dan Skolnik, op.cit.

<sup>42</sup> Jane C. Ginsburg (2000), op.cit at 28.

<sup>43</sup> e.g. see <<http://www.myplay.com>>.

<sup>44</sup> Jane C. Ginsburg (2000), op.cit at 24.

<sup>45</sup> Lisa M. Needham, *A Day In The Life Of The Digital Music Wars: The RIAA v. Diamond Multimedia*, 26 Wm. Mitchell L. Rev. 1135 (2000) at 1164.

<sup>46</sup> Jane C. Ginsburg (2000), op.cit at 24.

<sup>47</sup> See *Princeton Univ. Press v. Michigan Document Servs. Inc.*, 99 F.3d 1381 (6th Cir. 1996).

<sup>48</sup> My.MP3.com's 'Terms and Conditions' do not preclude this possibility. My.MP3.com, *Terms and Conditions* <<http://www.mp3.com/mymp3/terms/index.html>>.

copier and the user, as Skolnik points out, the copying would constitute commercial use, not private use, of the music.<sup>49</sup>

#### **4. Good or bad?**

Overall, the *MP3.com* decision seems to be damaging on a number of fronts. Firstly, as Needham points out the District Court's careful dismantling of *MP3.com*'s fair use claim does not bode well for new technology.<sup>50</sup> This increased cost and uncertainty in turn seems to be bad for both audiophiles and businesses.

Secondly, the *MP3.com* case led both to a costly damages judgement and settlement between *MP3.com* and the major record labels. On this point, Needham comments that this type of deal-making "seems to point to increased record industry control over content and licensing".<sup>51</sup> Further still, the developments in this case may be good for traditional copyright, but it is questionable whether they help society take full advantage of new technological possibilities. Moreover, if all Internet-related advancements require costly lawsuits and even costlier settlements, how will newcomers break into the market?

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<sup>49</sup> Dan Skolnik, *op.cit* at 25.

<sup>50</sup> Lisa M. Needham, *op.cit* at 1165.

<sup>51</sup> *ibid* at 1166.

## Chapter 8 – Analysis of *Napster*

*"Like they say about roaches, for every one you see, there's a hundred in the walls".<sup>1</sup>*

As is apparent, the My.MP3.com service was quite different from Napster in that MP3.com itself was doing the copying and then distributing the MP3 files. Napster, on the other hand only provided the technology to find the MP3 files.

### 1. Introduction

The *Napster* litigation was important on many fronts. It was the first case to consider the DMCA safe harbours and consequently was touted from the outset as being an important precedent setting case. This was especially so as it involved a newly enacted piece of legislation that was designed to address the problems posed by modern digital technology.

Second, the case examined the knowledge element required for contributory infringement in the light of the 'staple article of commerce' doctrine. It addressed what conduct in the Internet context constituted knowledge of or reason to know of infringing activity. The Ninth Circuit's decision effectively sets the path for the future.

This, combined with the *Sony* defence that Napster cannot be liable for contributory infringement because it is a program that facilitates substantial non-infringing uses, raised "critical policy issues".<sup>2</sup> While copyright owners are justified in trying to protect their intellectual property from piracy on the Internet, holding Napster responsible for the infringing actions of its users could have upset the balance sought by copyright law, thereby posing a substantial burden upon a variety of businesses that provide directory and search services to copyrighted materials available on-line.<sup>3</sup>

<sup>1</sup> Frank Pellegrini, *Will Music Giants Bite at Napster's Bait?*, Time.com, February 21, 2001 <<http://www.time.com/time/nation/article/0,8599,100133,00.html>>.

<sup>2</sup> Rebecca J. Hill, *Pirates Of The 21st Century: The Threat And Promise Of Digital Audio Technology On The Internet*, 16 Santa Clara Computer & High Tech. L.J. 311 (2000) at 335.

<sup>3</sup> Janelle Brown, *MP3 free-for-all*, Salon, February 03, 2000 <<http://dir.salon.com/tech/feature/2000/02/03/napster/index.html>>.

Thus, the *Napster* litigation touched upon a grey area of copyright law that tries to strike a balance between protecting intellectual property in cyberspace while also protecting ISPs from liability for the unauthorised actions of their users. As such, the resolution of the case had far-reaching implications for the future of property rights in cyberspace, even beyond the music industry. Movie companies correctly viewed the *Napster* dispute as a glimpse into their own future.<sup>4</sup> At the time of the *Napster* case, high-quality video files were too large to be sent quickly over most Internet connections, but now faster transmission services have started to threaten the status quo in the movie industry as well.

## **2. The DMCA**

To put it lightly, all of *Napster's* arguments under the DMCA appeared to “fail miserably”.<sup>5</sup> However, there are a number of flaws with the approach taken by the courts.

### **A. General Analysis of the District Court's Interpretation**

#### **1. Section 512(a)**

McWane comments that a potential flaw with the District Court's opinion was the “rigid” application of subsection 512(a)'s definition of “through a system”.<sup>6</sup> The District Court denied the subsection 512(a) defence because the safe harbour only applies where connections and routing occur through the service provider's system. The District Court found that because the MP3 files were transmitted through the Internet and not through *Napster's* servers, *Napster* could not claim the safe harbour protection.

However, McWane argues that although MP3 files never actually pass through *Napster's* servers, information about a user's request for a particular recording and

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<sup>4</sup> Ariel Berschadsky, op.cit at 757.

<sup>5</sup> Ryan C. Edwards, *Who Said Nothing In This World Is Free? A&M Records, Inc. v. Napster, Inc.: Problems Presented, Solutions Explored, And Answers Posed*, 89 Ky. L.J. 835 (2001) at 866.

<sup>6</sup> Sarah H. McWane, *Hollywood vs. Silicon Valley: Decss Down, Napster To Go?*, 9 CommLaw Conspectus 87 (2001) at 102.



Napster's subsequent facilitated response regarding host IP addresses and availability of the material certainly does pass "through" Napster's servers.<sup>7</sup>

This seems to imply that if Napster had simply routed the MP3 files through its own server, presumably it could have claimed the safe harbour exception since it would then have met the requirements of subsection 512(a).<sup>8</sup> The Ninth Circuit did not explore the issue further and indicated that the DMCA's safe harbor was not necessarily inapplicable to Napster.

McWane notes that if subsection 512(a) does not apply to file-sharing services like Napster, this narrow reading of the DMCA could stifle other Internet ventures from using or expanding on this revolutionary technology that requires central data indexes to work.<sup>9</sup> Indeed, legitimate Internet companies need to be able to grow unencumbered by the threat of copyright infringement lawsuits.

## 2. Section 512(d)

The District Court also noted that although a subsection 512(d) claim was not presented by Napster, it could not rely on it as a safe harbour because Napster had "reason to know" of the third party's copyright infringement. However, McWane points out that subsection 512(d) requires an 'actual knowledge' or a 'red flag' standard, which is much more than a mere "reason to know".<sup>10</sup>

This red flag standard is based on an ISP's subjective awareness and differs from previous standards. The Section 512 standard is whether the service provider deliberately proceeded in the face of blatant factors of which it is aware.<sup>11</sup>

McWane further points out that even if Napster had failed to comply with the red flag standard, it was necessary for the District Court to use the proper standard in a

<sup>7</sup> Sarah H. McWane, op.cit at 102.

<sup>8</sup> Shawn D. Chapman, *Pushing The Limits Of Copyright Law And Upping The Ante In The Digital World: The Strange Case Of A&M Records, Inc. v. Napster, Inc.*, 89 Ky. L.J. 793 (2001) at 809.

<sup>9</sup> John Heilemann, *David Boies: The Wired Interview*, Wired, October 2000 <<http://www.wired.com/wired/archive/8.10/boies.html>>.

<sup>10</sup> Sarah H. McWane, op.cit at 103.

<sup>11</sup> ibid at 103.

precedent-setting case like this one.<sup>12</sup> It has been commented that the US Congress could not have intended a mere knowledge standard to apply to the DMCA because, if ISPs do not know that their users are engaging in copyright infringement, there would be no third-party liability for ISPs under the DMCA.<sup>13</sup>

### 3. Reasonable Policy

The District Court found that Napster did not meet the reasonably implemented policy standard for repeat infringers required by subsection 512(i)(1)(A) because Napster did not block the IP addresses of infringing users. However, as McWane comments “this is not a requirement anywhere in the DMCA”.<sup>14</sup>

Under section 512(j), the only permissible type of court injunction against a protected ISP is termination of the subscriber accounts as specified in the court’s order. There is no mention of blocking the IP addresses. So it seems logical that by relying on the plain meaning of the DMCA Napster had not blocked any IP addresses and instead after October 2000 had terminated hundreds of thousands of users under the DMCA notification procedure.<sup>15</sup>

### 4. General

A restrictive reading by the District Court of subsection 512(a) has virtually assured no Internet business can claim the exception.<sup>16</sup> Further, McWane notes that the opinion in this case seems sympathetic to copyright holders and pessimistic about the future of file-sharing technology in that the District Court failed to consider legitimate aspects of the technology.<sup>17</sup>

This may be inline with protecting copyright holder’s right, but it seems that this may restrict the development of new technology. This in turn is not beneficial to society

<sup>12</sup> Sarah H. Mcwane, op.cit at 103.

<sup>13</sup> See John Heilemann, *David Boies: The Wired Interview*, Wired, October 2000 <<http://www.wired.com/wired/archive/8.10/boies.html>>.

<sup>14</sup> Sarah H. Mcwane, op.cit at 103.

<sup>15</sup> John Heilemann, *David Boies: The Wired Interview*, Wired, October 2000 <<http://www.wired.com/wired/archive/8.10/boies.html>>

<sup>16</sup> e.g. see Shawn D. Chapman, op.cit at 809; Ariel Berschadsky, op.cit at 775-82. It should be noted Berschadsky’s article was published before the District Court had issued any rulings.

as a whole. Such technology should be analysed with more emphasis on the prospective legitimate uses of peer-to-peer file swapping on the Internet.

## **B. The DMCA Safe Harbors and Vicarious Liability**

As Belknap points out Napster's attempts to comply with the DMCA safe harbours allowed the Ninth Circuit to find Napster vicariously liable for copyright infringement.<sup>18</sup> This catch-22 situation for ISPs undermines their ability to rely on the DMCA.

An ISP is vicariously liable for another's infringement when it has the right and ability to supervise the infringing activity, and a direct financial interest in the activity. Under the DMCA, an ISP is ineligible for the final two safe harbours if it receives "a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity".<sup>19</sup>

Consequently, as Belknap points out, it seems that if both elements of vicarious liability are present, the DMCA removes the ISP from the subsection 512(c) and (d) safe harbours against vicarious infringement.<sup>20</sup> This situation creates a difficult catch-22 situation for ISPs trying to protect themselves under the DMCA.

To use any of the DMCA safe harbours, an ISP must adopt, implement, and notify its users of a policy that outlines grounds for terminating network access for repeat infringers.<sup>21</sup> Essentially, an ISP must prove that it has the right and ability to control its system before it can rely on the subsection 512(c) and (d) safe harbours. However, as Belknap notes, because the right and ability to police one's system comprises half of the vicarious liability test, any ISP that qualifies under the first subsection 512(i) requirement and has a direct financial interest in the infringing activity consequently is liable for vicarious infringement.<sup>22</sup>

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<sup>17</sup> Sarah H. Mcwane, *op.cit* at 103.

<sup>18</sup> John W. Belknap, *Copyright Law And Napster*, 5 J. Small & Emerging Bus. L. 183 (2001) at 192.

<sup>19</sup> § 512(c)(1)(B), (d)(2).

<sup>20</sup> John W. Belknap, *op.cit* at 196.

<sup>21</sup> § 512(i)(1)(A).

<sup>22</sup> John W. Belknap, *op.cit* at 197.

Belknap comments that Napster is a “prime example” of this vicarious liability catch-22.<sup>23</sup> On the facts, it seems that because of Napster’s reservation of rights policy, which stated that Napster had the right to refuse service to anyone, the Ninth Circuit held that Napster had the right and ability to control infringing material on its system.

The Ninth Circuit did however note that Napster’s system architecture might not allow for perfect policing because the Napster system only checks for file names instead of file content. Nevertheless, Belknap comments that it was “Napster’s policy of regulating its system, presumably adopted as a means of complying with DMCA, that allowed it to be held liable for vicarious infringement”.<sup>24</sup> This situation is clearly not acceptable.

### **C. The DMCA and Proper Notification**

Questions remain about what kind of notification one must give an ISP to trigger the ISP’s duty to remove or disable access to infringing material.<sup>25</sup> Essentially, here the question is whether Napster received proper notification.

The Ninth Circuit left open the issue of whether the RIAA had given Napster sufficient notification of the existence of infringing materials accessible through Napster’s system. If there was proper notice, Napster then had to disable or remove access to the infringing materials promptly or lose protection under DMCA.<sup>26</sup> The notification requirements are detailed in subsection 512(c)(3).

As Belknap points out, based on the pre-trial record there is evidence that the RIAA at one point informed Napster of the presence of over twelve thousand infringing files.<sup>27</sup> However, neither the Ninth Circuit nor the District Court addressed the validity of notification under the DMCA.

A recent case from the United States District Court for the Fourth Circuit provides some guidance on the DMCA notification requirements. In *ALS Scan, Inc. v.*

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<sup>23</sup> John W. Belknap, op.cit at 197.

<sup>24</sup> *ibid* at 197.

<sup>25</sup> *ibid* at 192.

<sup>26</sup> § 512(c)(1)(A)(iii), (d)(1)(C).

<sup>27</sup> John W. Belknap, op.cit at 198.

*RemarQ Communities, Inc.*, the Fourth Circuit held that substantial compliance with the DMCA statutory notification provisions was sufficient to trigger an ISP's duty to disable access to infringing material.<sup>28</sup>

Effectively, the Fourth Circuit in *ALS Scan* held that a defendant lost its DMCA protection the moment it became aware that a third party was using its system to infringe. Further, to be able to use the DMCA, the ISP would have to disable access to the infringing material in question.

As to the contents of the notification, the Fourth Circuit emphasised that the notification must substantially comply with the statutory notification requirements of DMCA. Furthermore, only a representative list of infringing material was required, so long as the list was reasonably sufficient to permit the service provider to locate the infringing material.

The Fourth Circuit added that the DMCA was designed "to reduce the burden of holders of multiple copyrights who face extensive infringement of their works".<sup>29</sup> Regarding the defendant's claim that the Fourth Circuit's ruling would require it to remove non-infringing works from the system, the Fourth Circuit noted that the defendant had remedies under the DMCA if forced to remove or disable access to non-infringing material.<sup>30</sup>

Belknap comments that the *ALS Scan* decision has "potentially significant consequences" for Napster.<sup>31</sup> If substantial compliance with the DMCA notice provisions is sufficient notification, Napster might have had an affirmative duty to remove thousands of music files from its system well before the litigation in this case began.

Consequently, according to Belknap the list of infringing works sent by the RIAA would be sufficient to trigger Napster's duty to remove files from its system.<sup>32</sup> Additionally, the RIAA would only need to inform Napster of a representative list of

<sup>28</sup> *ALS Scan, Inc. v. RemarQ Cmty., Inc.*, 2001 WL 98364 (4th Cir. 2001) ("*ALS Scan*") at 6-7.

<sup>29</sup> *ibid* at 6.

<sup>30</sup> *ibid* at 7.

<sup>31</sup> John W. Belknap, *op.cit* at 199.

<sup>32</sup> *ibid* at 200.

infringing files, instead of having to identify each infringing file with specificity. Thus, it seems that even with minimal notification of infringing files, Napster would have faced the burden of removing those files.

### **3. Napster's Fair Use Defences**

Chapman comments that much of the District Court's analysis of Napster's fair use defence "is correct".<sup>33</sup> The Ninth Circuit agreed after reviewing the District Court's decision for abuse of discretion and clear error.

According to Chapman, the District Court's rejection of a general fair use exception for Napster use "simply makes sense".<sup>34</sup> Napster and its users were engaged in a commercial activity that involved copying of protected material and ultimately had an adverse effect on the RIAA's market for its works. As such all four of the fair use factors in section 107 CA were met. However, problems seem to arise from the District Court's analysis of Napster's specific claims of fair use – sampling, space-shifting, and the New Artist Program.

The District Court first applied the section 107 factors in an "extensive, and quite persuasive, analysis of sampling".<sup>35</sup> Ultimately, because users could permanently keep the music they 'sampled' from Napster and because of the adverse economic effect of widespread Napster use, sampling did not constitute a fair use in this context. According to Chapman this reasoning is sound.<sup>36</sup> Further, Napster's comparison of its service to a free listening station in a record store "simply defies common sense", since its users obtained a permanent copy of the song.<sup>37</sup>

Chapman argues that the District Court's analysis of the other claimed fair uses – space-shifting and the New Artist Program – "was not as convincing".<sup>38</sup> This has even more importance when taking into account that once a specific practice is

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<sup>33</sup> Shawn D. Chapman, *op.cit* at 813.

<sup>34</sup> *ibid* at 814.

<sup>35</sup> *ibid* at 813.

<sup>36</sup> *ibid* at 814.

<sup>37</sup> *ibid* at 814.

<sup>38</sup> *ibid* at 814.

deemed to be a fair use then the ‘staple article of commerce’ doctrine precludes liability for contributory or vicarious infringement.

Consequently, because of the significance of the finding of fair use in the analysis behind the ‘staple article of commerce doctrine’, it is important to analyse the courts’ approach when considering the specific fair uses. Notably, Chapman argues that in denying Napster’s fair use and subsequent ‘staple article of commerce’ claim regarding space shifting and legitimate distribution, Judge Patel “misapplied” the Supreme Court’s decision in *Sony*.<sup>39</sup>

#### **4. Space-Shifting**

##### **A. District Court**

The Ninth Circuit in *Diamond* expressly analogised the ‘space-shifting’ of MP3s to the ‘time-shifting’ protected in *Sony* – holding that such “copying is paradigmatic non-commercial personal use”.<sup>40</sup> As such, Chapman argues that the practice of ‘space-shifting’ should constitute a fair use.<sup>41</sup>

However, the District Court attempted to dispel this argument by claiming that because the Ninth Circuit in *Diamond* was applying a provision of the AHRA, an “inapplicable statute” in the *Napster* case, its analysis of space-shifting was also inapplicable.<sup>42</sup> In an extensive footnote, the District Court attempted to support this dismissal of Napster’s argument, but as Chapman points out the note consists of “little more than a reiteration that the AHRA is inapplicable”.<sup>43</sup>

Chapman argues that the Ninth Circuit’s dicta is not inapplicable, if only for the simple reason that the opinion in *Diamond* made clear the analogy between ‘space-shifting’ and ‘time-shifting’ – “an analogy whose application is not limited only to the AHRA”.<sup>44</sup>

<sup>39</sup> Shawn D. Chapman, op.cit at 814.

<sup>40</sup> *Diamond II* at 1079.

<sup>41</sup> Shawn D. Chapman, op.cit at 814.

<sup>42</sup> *Napster II* at footnote 19.

<sup>43</sup> Shawn D. Chapman, op.cit at 815.

<sup>44</sup> *ibid* at 815.

According to Chapman, Judge Patel's 'inapplicable' argument is something of a "bad-faith effort at avoiding this issue – making a tautological argument that the dicta is irrelevant because it is irrelevant".<sup>45</sup> Further, the "analogy is clear, and a failure to apply it in this case amounts to a misreading of *Diamond*".<sup>46</sup>

Chapman further argues that if properly applied, *Diamond* indicates that the 'space-shifting' of MP3 files, "whether it be from a personal computer to a portable device or from one personal computer to another over the Internet, is the sort of non-infringing use contemplated by *Sony's* staple article of commerce doctrine".<sup>47</sup>

The District Court further attempted to support this finding of no 'fair use' with facts from the *Napster* case itself. The District Court found that "space-shifting accounts for a de minimis portion of *Napster* use and is not a significant aspect of defendant's business".<sup>48</sup> The District Court reached this conclusion through the application of "common sense" basing its reasoning on several factors including *Napster's* failure to show that it "saw space-shifting as an attraction for its user base".<sup>49</sup> The District Court also pointed to an expert opinion indicating that a significant portion of college-age *Napster* users do not own the music that they download.

However, as Chapman points out, these facts do not support the idea that 'space-shifting' is not a fair use, but instead they are part of the 'staple article of commerce' inquiry into whether or not the non-infringing use is substantial.<sup>50</sup> Again according to Chapman, the District Court seems to have misread the *Sony* opinion, claiming that the finding of time-shifting as a fair use was due to the fact the "time-shifting represented the principal, rather than an occasional use of VCRs".<sup>51</sup>

Chapman concedes that while it is true that the *Sony* court did accept that time-shifting was the principal use of VCRs, its finding of fair use was based on an

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<sup>45</sup> Shawn D. Chapman, op.cit at 815-816.

<sup>46</sup> ibid at 816.

<sup>47</sup> ibid at 816.

<sup>48</sup> *Napster II* at 904.

<sup>49</sup> ibid at 905.

<sup>50</sup> Shawn D. Chapman, op.cit at 816.

<sup>51</sup> *Napster II* at 916.



analysis of the four factors in section 107 CA.<sup>52</sup> Indeed, what portion of the overall use that a given fair use constitutes is only relevant in determining whether the staple article of commerce doctrine is applicable, not in evaluating whether a given use is a fair use.

Consequently, Chapman argues that the District Court “commingled” two separate aspects of the ‘staple article of commerce analysis’ – the determination of ‘fair use’ comes first and is based in the criteria laid out in section 107 CA.<sup>53</sup> Accordingly, Chapman argues that a clear reading of *Diamond* and *Sony* indicates that space-shifting is a “non-commercial, fair, non-infringing use”.<sup>54</sup>

## B. Ninth Circuit

The Ninth Circuit reached the same conclusion as the District Court that space-shifting was not a ‘fair use’. Though, as Chapman points out “it applied a different, yet equally flawed, analysis”.<sup>55</sup>

The Ninth Circuit pointed out that in *Sony* and *Diamond*, the person who ‘shifted’ the copyrighted material did not also distribute that material to others. The Ninth Circuit indicated that Napster’s use was different because “once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes ‘available to millions of other individuals’”.<sup>56</sup>

Effectively the Ninth Circuit found that because other persons are able to access the files, the space-shifting is no longer a fair use. Chapman argues that while “this is certainly a stronger argument than that offered by the District Court, it again fails to convince”.<sup>57</sup> He argues that just because files are available to other persons does not change the fact that the files are space-shifted, and that this is paradigmatic fair use.<sup>58</sup>

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<sup>52</sup> Shawn D. Chapman, op.cit at 816.

<sup>53</sup> ibid at 817.

<sup>54</sup> ibid at 817.

<sup>55</sup> ibid at 817.

<sup>56</sup> *Napster III* at 1019.

<sup>57</sup> Shawn D. Chapman, op.cit at 817.

<sup>58</sup> ibid at 817.

Chapman explains that space-shifting is a separate activity from distribution to other persons and simply because a technology allows a fair use and an unfair use to occur simultaneously does not make the fair use unfair.<sup>59</sup> Chapman's reasoning certainly seems sound.

The Ninth Circuit attempted to support its position by citing *MP3.com* and *Religious Technology Center v. Lerma*.<sup>60</sup> However, according to Chapman, these cases are "clearly distinguishable".<sup>61</sup>

The Ninth Circuit claimed that *MP3.com* included a finding that 'space-shifting' of MP3 files was not a fair use even when previous ownership is demonstrated before a download is allowed. Chapman comments that this argument fails to take into account the most basic factual difference between *MP3.com* and *Napster* – *MP3.com* provided the files, whereas in *Napster* users provide their own files.<sup>62</sup>

Chapman points out that the "fundamental idea behind a fair use is that it is personal".<sup>63</sup> In *MP3.com* the use was not personal because *MP3.com* directly infringed copyright by providing the files, and because it reaped a financial benefit for the distribution of the files. Chapman comments, that in the context of 'time-shifting,' this would be analogous to a business selling bootleg copies of a television program so that people could watch the programs at a time other than when broadcast.<sup>64</sup> This, he argues, is "clearly not a personal or fair use". Consequently, the difference between the practices in *MP3.com* and *Napster*, while subtle, are very significant.

The Ninth Circuit indicated that *Religious Technology Center* also supported its position because it suggested "that storing copyrighted material on computer disk for later review is not a fair use".<sup>65</sup> Again, Chapman argues the alleged use in *Religious Technology Center*, much like in *MP3.com*, was not a personal use.<sup>66</sup> The defendant

<sup>59</sup> Shawn D. Chapman, op.cit at 817.

<sup>60</sup> *Religious Technology Center v. Lerma*, 40 U.S.P.Q.2d 1569 (E.D. Va. 1996).

<sup>61</sup> Shawn D. Chapman, op.cit at 818.

<sup>62</sup> ibid at 818.

<sup>63</sup> ibid at 818.

<sup>64</sup> ibid at 818.

<sup>65</sup> *Napster III* at 1019.

<sup>66</sup> Shawn D. Chapman, op.cit at 818.

in *Religious Technology Center* did not previously own the materials that he was ‘space-shifting’. Further, Chapman argues that the Ninth Circuit’s use of *Religious Technology Center* directly contradicts its previous holding in *Diamond* – that space-shifting of MP3 files was “paradigmatic” fair use.<sup>67</sup>

## **5. Napster’s Staple Article of Commerce Defence**

### **A. District Court**

#### **1. Space-Shifting**

Chapman argues that if “anything, the space-shifting analyses offered by the District Court and the Ninth Circuit show only that some of the uses of Napster are not fair”.<sup>68</sup> Thus, fair use by Napster’s users is not a complete defence. It would have to be employed merely as part of a defence based on the ‘staple article of commerce’ doctrine.

The ‘staple article of commerce’ analysis simply addresses whether the product is “capable of substantial noninfringing uses”.<sup>69</sup> As Chapman notes the *Sony* court was reluctant to apply a rigid standard regarding whether a non-infringing use was ‘significant’ or ‘substantial’.<sup>70</sup>

The statistics cited by the District Court in *Napster* show that a large percentage of Napster users were engaged in some sort of space-shifting. The Supreme Court’s language in *Sony* indicates resorting to mere accounting is unnecessary:

“Whatever the future percentage of legal versus illegal home-use recording might be, an injunction which seeks to deprive the public of the very tool or article of commerce capable of some noninfringing use would be an extremely harsh remedy, as well as one unprecedented in copyright law”.<sup>71</sup>

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<sup>67</sup> Shawn D. Chapman, op.cit at 818.

<sup>68</sup> *ibid* at 819.

<sup>69</sup> *Sony* at 442.

<sup>70</sup> Shawn D. Chapman, op.cit at 819. See *Sony* at 442-446.

<sup>71</sup> *Sony* at 444.

Consequently, Chapman argues that it is clear that under the 'staple article of commerce' doctrine, the amount of space-shifting encountered on Napster should have been enough to serve as an affirmative defence.<sup>72</sup>

## 2. Napster's On-Going Control

Chapman comments that the District Court's final argument against applying the staple article of commerce doctrine is "perhaps the strongest".<sup>73</sup> The District Court indicated that the 'staple article of commerce' doctrine does not apply because "Napster exercises ongoing control over its service",<sup>74</sup> whereas Sony's "participation did not extend past manufacturing and selling the VCRs".<sup>75</sup>

Chapman comments that this argument is "somewhat misleading", especially when considered in the light of the *Sony* court's doctrinal concerns regarding the rationale behind copyright law.<sup>76</sup> The *Sony* Court stated that the basic function of copyright is to encourage the "broad public availability of literature, music, and the other arts" and that the monopoly granted to the copyright holder is simply a subservient means to that end.<sup>77</sup>

As such when "technology has advanced so as to elude a clear answer under current copyright law, courts should be very reluctant to expand copyright protection by interpreting the law through the lens of this basic function".<sup>78</sup> Consequently, the *Sony* court was reluctant to give broadcasters a right to suppress the new technology of the VCR.

Furthermore, Chapman points out that the cases that the District Court cited to support her argument that retaining control of a product eliminates the 'staple article of commerce' defence, were all based on specific uses of currently existing

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<sup>72</sup> Shawn D. Chapman, op.cit at 819.

<sup>73</sup> *ibid* at 819.

<sup>74</sup> *Napster II* at 916.

<sup>75</sup> *ibid* at 916.

<sup>76</sup> Shawn D. Chapman, op.cit at 819. See *Sony* at 430-432.

<sup>77</sup> *Sony* at 431-432.

<sup>78</sup> Shawn D. Chapman, op.cit at 819-820.

technology – “technology that the copyright law has had time to ingest and adjust to accordingly”.<sup>79</sup>

On the other hand, Chapman argues that Napster is more like the VCR when it was first introduced in the late 1970s.<sup>80</sup> It is a new technology, the main function of which is to provide greater access to music – “a function that coincides perfectly with the basic aims of copyright law”.<sup>81</sup>

Thus according to Chapman, “rather than suppressing Napster, the *Napster* court should have been loath to expand the recording industry’s copyright monopoly, especially in the initial stages of litigation when a potentially damaging injunction lies ready to envelop and potentially destroy this new technology”.<sup>82</sup> Further, the “basic philosophy of American copyright urges the release and support – not hindrance – of new technology”.<sup>83</sup>

## **B. Ninth Circuit**

Given the District Court’s difficulty with the ‘staple article of commerce’ doctrine, the Ninth Circuit, with its furthest departure from the District Court’s opinion, attempted to clarify the discussion. The Ninth Circuit did this by differentiating between contributory liability and vicarious liability and then proceeding to discuss the ‘staple article of commerce’ doctrine’s application to each theory of liability.

### **1. Contributory Liability**

#### **(a) A More Technology-Friendly Approach**

Ginsburg comments that the Ninth Circuit’s decision “tacitly” acknowledges the concern that copyright should not stifle the advance of technology.<sup>84</sup> While not everyone asserted the lawfulness of Napster’s particular operation of peer-to-peer file

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<sup>79</sup> Shawn D. Chapman, *op.cit* at 820.

<sup>80</sup> *ibid* at 820.

<sup>81</sup> *ibid* at 820.

<sup>82</sup> *ibid* at 820.

<sup>83</sup> *ibid* at 820.

sharing technology, most concurred that peer-to-peer file sharing technology offers a valuable means of communication whose promotion should not be put in jeopardy by overly broad copyright protection.

This is why Ginsburg believes that the Ninth Circuit felt “compelled to make a clear distinction between the architecture of the Napster system and Napster’s conduct in relation to the operational capacity of the system”.<sup>85</sup> Ginsburg argues that by making this distinction the Ninth Circuit stressed that Napster was not the *Sony* case all over again.

The Ninth Circuit adopted “an apparently more technology-friendly approach” than the District Court did.<sup>86</sup> The Ninth Circuit stated that the District Court had improperly confined its analysis of non-infringing uses to current uses, ignoring the system’s capabilities. As such the District Court placed undue weight on the proportion of current infringing use as compared to current and future non-infringing use.

The Ninth Circuit, however, warned that it would “not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights.”<sup>87</sup> Ginsburg comments that these statements appear “designed to alleviate concerns about conflicts between copyright and new technology”.<sup>88</sup>

The Ninth Circuit clarified that deployment of a technology that the exploiter knows can be used to infringe does not of itself satisfy the knowledge element for contributory liability. Effectively, contributory liability will not lie “merely because the structure of the system allows for the exchange of copyrighted material”.<sup>89</sup>

#### (b) Actual Knowledge

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<sup>84</sup> Jane C. Ginsburg, *Copyright And Control Over New Technologies Of Dissemination*, 101 Colum. L. Rev. 1613 (2001) at 1639.

<sup>85</sup> *ibid* at 1639.

<sup>86</sup> *ibid* at 1640.

<sup>87</sup> *Napster III* at 1020-21.

<sup>88</sup> Jane C. Ginsburg (2001), *op.cit* at 1640.

As Ginsburg comments so “far so good for new copyright-implicating technologies in principle”.<sup>90</sup> However, as Chapman points out the Ninth Circuit then took a “curious turn in its reasoning”, noting that if knowledge can otherwise be proven, then contributory liability ensues.<sup>91</sup>

Thus, the Ninth Circuit interpreted the *Sony* test of ‘substantial non-infringing use’ to be related entirely to the knowledge element of contributory infringement. Effectively, it found that the existence of substantial non-infringing uses for a technology does not insulate the provider of that technology from liability, it merely makes it improper to “impute the requisite level of knowledge” to the provider for contributory infringement.<sup>92</sup>

So, as Kramarsky points out, once any substantial non-infringing use is demonstrated, the question apparently becomes one of actual knowledge.<sup>93</sup> In effect, the technology provider’s knowledge of specific user infringements “overrides the impunity that the actual or potential existence of noninfringing uses might otherwise give it”.<sup>94</sup> According to Ginsburg, it was Napster’s knowledge of its users’ infringing activities that supplied the “crucial difference” between the Napster technology and the VCR in *Sony*.<sup>95</sup>

Others do not agree with the Ninth Circuit’s interpretation of *Sony* – that once Napster had knowledge of users’ direct infringement on its system, it could not claim the ‘staple article of commerce’ immunity from contributory liability.<sup>96</sup> Indeed on this point Dogan comments that the “Ninth Circuit gave a somewhat elliptical treatment of *Sony*”.<sup>97</sup>

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<sup>89</sup> *Napster III* at 1021.

<sup>90</sup> Jane C. Ginsburg (2001), op.cit at 1640.

<sup>91</sup> Shawn D. Chapman, op.cit at 821.

<sup>92</sup> *Napster III* at 1021-22.

<sup>93</sup> Stephen M. Kramarsky, op.cit at 32.

<sup>94</sup> Jane C. Ginsburg (2001), op.cit at 1641.

<sup>95</sup> *ibid* at 1641.

<sup>96</sup> e.g. see Shawn D. Chapman, op.cit at 820-821.

<sup>97</sup> Stacey L. Dogan, *Is Napster A VCR? The Implications Of Sony For Napster And Other Internet Technologies*, 52 *Hastings L.J.* 939 (2001) at 948.

Chapman argues that this knowledge assertion “is troubling in two respects”.<sup>98</sup> First Chapman argues that Napster’s knowledge is “simply” an element of the claim of contributory infringement to which the ‘staple article of commerce’ doctrine is an affirmative defence.<sup>99</sup>

Chapman argues that the ‘staple article of commerce’ doctrine does “more than create a rebuttable presumption of a lack of knowledge; it is an affirmative defense”.<sup>100</sup> He argues that a reading of *Sony*, especially the areas repeatedly cited by the Ninth Circuit in support of this proposition fails to show any sign of this “twist in the doctrine”.<sup>101</sup> In fact, he argues further, the *Sony* court pointed out that to assert the defence one need only show that the technology in question is “merely...capable of substantial noninfringing uses”.<sup>102</sup>

Secondly, in its assertion that actual knowledge trumps the ‘staple article of commerce’ doctrine the Ninth Circuit felt “compelled to make a clear distinction between the architecture of the Napster system and Napster’s conduct in relation to the operational capacity of the system”.<sup>103</sup>

Essentially, the Ninth Circuit contended that Napster’s “conduct in relation” to its system – its continued control of the system and subsequent failure to block access to the system by suppliers of the infringing material – when combined with knowledge of the direct infringement was enough to overcome the ‘staple article of commerce’ doctrine.<sup>104</sup>

Chapman comments that putting aside any objections to the Ninth Circuit’s interpretation, “this appears to be just the sort of confusion between contributory and vicarious liability that the court of appeals warned against just a few pages later”.<sup>105</sup> More importantly, according to Chapman this confusion also appears to be crucial in

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<sup>98</sup> Shawn D. Chapman, op.cit at 821.

<sup>99</sup> ibid at 821.

<sup>100</sup> ibid at 821.

<sup>101</sup> ibid at 821.

<sup>102</sup> ibid at 821.

<sup>103</sup> *Napster III* at 1020.

<sup>104</sup> ibid at 1019-22.

<sup>105</sup> Shawn D. Chapman, op.cit at 822.



the Ninth Circuit's argument against the application of the 'staple article of commerce' defence to vicarious liability.<sup>106</sup>

### (c) The Service v The Technology

According to the Ninth Circuit, it was important to distinguish between the "architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system".<sup>107</sup> Thus, the decision appears to focus on the legality of the services provided by Napster rather than the underlying technology itself. As Burger comments, this may provide comfort for businesses engaged in developing technologies that may be used for any number of purposes.<sup>108</sup>

According to Burger, however, the Ninth Circuit's opinion "fails to clearly articulate the distinction between the services at issue and the underlying technology".<sup>109</sup> As a result, he argues that it is uncertain how this standard relates to the *Sony* test of whether a product is capable of substantial non-infringing uses.<sup>110</sup>

Burger notes that the Ninth Circuit's reasoning appears to suggest that, "in an online context", the *Sony* test has less relevance, and courts should instead focus on evidence of actual knowledge by ISPs of the infringing activities of their users.<sup>111</sup> Burger argues further, that while this distinction may be sufficient in the immediate case, "it seems likely that in future cases it may be more difficult to distinguish between the use of the service and the use of the technology".<sup>112</sup>

## 2. Vicarious Liability

### (a) Application of the Staple Article of Commerce Doctrine

<sup>106</sup> Shawn D. Chapman, op.cit at 822.

<sup>107</sup> *Napster III* at 1021.

<sup>108</sup> James M. Burger, "Rock 'N Roll Is Here To Stay": *Napster And Online Music Distribution*, 19-Spg Comm. Law. 1 (2001) at 35.

<sup>109</sup> *ibid* at 35.

<sup>110</sup> *ibid* at 35.

<sup>111</sup> *ibid* at 35.

<sup>112</sup> *ibid* at 35.

Chapman comments that vicarious liability focuses on continuing control of the technology, a concern clearly implicated in the Ninth Circuit's discussion of contributory liability.<sup>113</sup> However, the Ninth Circuit went to great length to express the difference between the two theories of liability.

In doing so the Ninth Circuit noted that *Sony's* 'staple article of commerce' analysis had no application to Napster's potential liability for vicarious copyright infringement. The Ninth Circuit stated that the *Sony* analysis should not apply to vicarious liability because the *Sony* court used the term "vicarious liability" in a generic sense instead of for its specific legal meaning. As such, the Ninth Circuit found the *Sony* analysis of substantial non-infringing uses irrelevant to a determination of vicarious liability.

Thus, Napster had no *Sony* defense to vicarious infringement. Consequently as Belknap points out even "if the Ninth Circuit had not modified the *Sony* contributory infringement analysis, Napster would still be liable for vicarious copyright infringement".<sup>114</sup>

The Ninth Circuit cited the *Sony* case itself as authority for this claim. Chapman comments the Ninth Circuit correctly pointed out that specific claims of direct and vicarious liability were not before the *Sony* court and that the Supreme Court recognised that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn".<sup>115</sup>

The Ninth Circuit argued that as a result, the *Sony* court used the terms 'contributory' and 'vicarious' liability imprecisely and interchangeably. Chapman argues that despite the Ninth Circuit's characterisation, an imprecise use of the terminology of these two theories of indirect liability does not necessarily mean that the *Sony* court intended the staple article of commerce analysis to only apply to one theory – that is to contributory liability.<sup>116</sup>

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<sup>113</sup> Shawn D. Chapman, op.cit at 822.

<sup>114</sup> John W. Belknap, op.cit at 192.

<sup>115</sup> *Sony* at 435 n.17.

<sup>116</sup> Shawn D. Chapman, op.cit at 823.

Chapman argues further that nothing “in the *Sony* opinion supports such a reading”.<sup>117</sup> Instead, “a look at the philosophical underpinnings of the *Sony* court’s opinion – that the arts, sciences, and new technology should be promoted, not hampered by the limited monopoly provided by copyright law – indicates that the opposite conclusion is proper”.<sup>118</sup> This certainly seems to be the case from a straightforward reading of *Sony*.

According to Chapman, the staple article of commerce analysis is an affirmative defence to both theories of indirect copyright liability.<sup>119</sup> To read *Sony* otherwise would allow “the fundamental rationale behind copyright to be swallowed by a distinction between two theories of liability that essentially merge in practice”.<sup>120</sup> Chapman argues that this ‘practical merging’ is evidenced both by the Supreme Court’s interchangeable use of the two theories in *Sony* and the Ninth Circuit’s difficulty in drawing a distinct line between the two despite its express desire to do so in *Napster*.<sup>121</sup>

#### (b) Uncertainty

Burger comments that the Ninth Circuit “failed to clearly articulate the distinction between vicarious and contributory liability for copyright infringement”.<sup>122</sup> Its decision imposed on Napster a duty to police its system to the “fullest extent” possible in order to escape liability for vicarious copyright infringement.

Moreover, at the same time the Ninth Circuit refused to decide whether the DMCA’s safe harbour protections for online service providers would apply. Berger, thus comments that as “a result, the decision creates uncertainty regarding the duties of computer service providers to police their networks when they have actual or constructive knowledge of potentially infringing activities”.<sup>123</sup>

<sup>117</sup> Shawn D. Chapman, op.cit at 823.

<sup>118</sup> *ibid* at 823. See *Sony* at 430-432.

<sup>119</sup> Shawn D. Chapman, op.cit at 823.

<sup>120</sup> *ibid* at 823-824.

<sup>121</sup> *ibid* at 823-824.

<sup>122</sup> James M. Burger, op.cit at 35.

<sup>123</sup> *ibid* at 36.

This becomes more relevant in light of tracking activities undertaken by both the RIAA and more recently the Motion Picture Association of America ('MPAA'). For example, once the MPAA has tracked users who download digital movies without authorisation, it sends warning letters to the relevant ISPs warning them of their users' violation of the law.

## **6. The Peer-2-Peer Movement**

The simple Napster peer-to-peer ('P2P') service relied on users to pay for their own storage and connection costs, an approach that has paved the way for other P2P file-sharing applications.<sup>124</sup> Consequently, even while Napster was still in operation, before the fatal blows from the District Court and Ninth Circuit decisions, there were alternative file-sharing services on offer and in the pipeline.

However, none of these alternatives were as popular as Napster and its sixty million or so users. This all changed after Napster's shutdown. Its users were then forced to seek out unstoppable alternatives. These uncontrollable alternatives are the P2P file sharing software programs such as Gnutella operated by those that are hard to reach through judicial process.<sup>125</sup>

Such P2P systems do not rely on a central server that a traditional ISP or Napster must have to provide its services.<sup>126</sup> The Gnutella protocol connects users in an ad hoc fashion as if in a dynamic, loosely organised web of individual connections across the Internet. These users then make files available on their hard-drive to others on the web.

One drawback is that these systems slow down considerably when more users join them, particularly users with dial-up modems, and such systems can ultimately slow to a halt.<sup>127</sup> Indeed, at the time when Napster was still operating, with its future

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<sup>124</sup> James M. Burger, op.cit at 33.

<sup>125</sup> See <<http://gnutella.wego.com/>>.

<sup>126</sup> Chewychin (a pseudonym), *Napster vs. Gnutella*, Epinions.com, May 08, 2001 <[http://www.epinions.com/content\\_1460707460](http://www.epinions.com/content_1460707460)>.

<sup>127</sup> James M. Burger, op.cit at 36.

hanging in the balance, there was concern over whether such P2P alternatives would be able to handle a large portion of the existing Napster users.<sup>128</sup>

It was believed then that given the publicity surrounding Napster and hacker motivations, it would be surprising not to see either Gnutella and similar programs improving, or new alternative file-sharing services emerging. This certainly seems to have happened.

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<sup>128</sup> James M. Burger, *op.cit* at 36.

## Chapter 9 – Solutions and Conclusions

*“As sure as you or I are sitting in this courtroom today, some bright young entrepreneur... is going to come up with a device to unjam the jam. And then we have a device to jam the unjamming of the jam and we all end up like jelly”.<sup>1</sup>*

An analysis of the recent litigation involving the digital distribution of music over the Internet would not be complete without a brief mention of the possible solutions that could be implemented. Both the legislature and the recording industry have a number of legal and technological options available, some of which have already been acted upon, that could be used to tackle the problem of unauthorised distribution of music.<sup>2</sup>

### 1. Legal Solutions

#### **A. Changing the Internet’s Underlying Structure**

The legislature is not completely powerless when it comes to regulating the Internet, even though some would argue that “the nature of the space makes behavior there unregulable”.<sup>3</sup>

It cannot be denied that the nature of the Internet makes it difficult to stop the spread of information. Therefore, some argue that it would be better for the legislature to regulate how the Internet works, rather than regulating the behaviour of its users.<sup>4</sup> This could be done by enacting a law requiring code writers to change the underlying code of the Internet.<sup>5</sup>

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<sup>1</sup> Paul Goldstein, *Copyright’s Highway: The Law and Lore of Copyright from Gutenberg to the Celestial Jukebox*, Hill & Wang, New York, NY, 1994 at 159.

<sup>2</sup> Other possible solutions have not been mentioned here. For example the adoption of a shareware approach to the distribution of on-line music. For a detailed analysis of such an approach see further Paul Veravanich, Paul Veravanich, op.cit at 475 – 478.

<sup>3</sup> Lawrence Lessig, *Comment, The Law of the Horse: What Cyberlaw Might Teach*, 113 Harv. L. Rev. 501, 1999 at 505.

<sup>4</sup> Kristine J. Hoffman, op.cit at 169.

<sup>5</sup> Lawrence Lessig, *Comment, The Law of the Horse: What Cyberlaw Might Teach*, 113 Harv. L. Rev. 501, 1999 at 514.

Simply by changing the Internet's code, a user's identity could be self-authenticating.<sup>6</sup> As soon as a user connects to the Internet, or to a particular site, that user's identity, possibly along with other identifying information, would be transmitted to the site.<sup>7</sup>

This type of legislation would aid the RIAA immeasurably in tracking down pirates. It would be able to track a user's legitimate and illegitimate transfers. No longer would it be possible for pirates to transfer digital music files anonymously, because their identity would be known as soon as they logged on. Whether or not the RIAA should be able to keep track of a user's legitimate transfers is a different issue all together.<sup>8</sup> No doubt, such information would be invaluable to the RIAA and its members for marketing purposes.

It should be noted, however, that this is not a perfect solution to the problem.<sup>9</sup> First, it could be argued that it is too drastic a solution. On the other hand, other copyright holders would be able to enjoy the benefits of such a solution as well. Second, the legislature would have to come up with a standard code format for the code writers to use. This alone could take months or even years to do.<sup>10</sup>

Next, this code, like all other codes, could be cracked. A diligent and motivated hacker would break the code sooner or later.<sup>11</sup> Finally, tracking transfers might be socially undesirable, given privacy concerns. Not everyone who uses the Internet will want an ISP, web site owner, other users, or the government to know his or her identity. Indeed, part of the current lure of the Internet and a reason for its popularity is that one can blend in and remain anonymous.

## **B. Imposition of Royalties on Manufacturers of Portable MP3 Devices**

One possible way to guarantee that the record industry will receive some economic

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<sup>6</sup> Kristine J. Hoffman, op.cit at 169.

<sup>7</sup> Lawrence Lessig, op.cit at 515.

<sup>8</sup> Kristine J. Hoffman, op.cit at 169.

<sup>9</sup> ibid at 169.

<sup>10</sup> Kevin Davis, *Fair Use on the Internet: A Fine Line Between Fair and Foul*, 34 U.S.F. L. Rev. 129 1999 at 163.

<sup>11</sup> Lawrence Lessig, Comment, *The Law of the Horse: What Cyberlaw Might Teach*, 113 Harv. L. Rev. 501 1999 at 533.

compensation for their copyrighted materials is to impose a royalty scheme on portable MP3 players.<sup>12</sup> This would not be a novel concept. The AHRA already contains a royalty scheme that is targeted at DAT devices.

Although its current incarnation does not necessarily encompass portable MP3 players such as the Rio, the legislature could easily amend the AHRA to provide such coverage. For example, the legislature could update the definition of 'digital audio recording device' to specifically include devices without an independent recording function such as MP3 players.

If the legislature amends the AHRA to include MP3 player devices within its jurisdiction, it would ensure that music artists and the record industry are compensated in some manner with respect to the use of portable devices to playback MP3 copies of their work.<sup>13</sup>

However, the inclusion of Rio devices within the AHRA's royalty scheme would not produce the same level of compensation as with devices such as DATs.<sup>14</sup> First, the expansion of the AHRA royalty provisions would not include all users of MP3 files. For example, computer users do not need to purchase portable MP3 players to be able to listen to MP3 files. They could still download files from the Internet and play them through the speakers of their computers with the use of MP3 playing software.

Additionally, since the AHRA imposes royalties on both recording and playback devices, and the media used with those machines, there would only be one source of income with MP3 player devices as compared to a traditional digital audio recorder.<sup>15</sup> This is because MP3 players don't use interchangeable media like cassettes or CDs used in cassette players and CD players.

As a result, imposing royalties on MP3 players would not be a complete answer to Internet piracy of music files.<sup>16</sup> However, it would ensure that the recording industry received some measure of compensation as far as portable MP3 players are

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<sup>12</sup> Paul Veravanich, *op.cit* at 468.

<sup>13</sup> *ibid* at 469.

<sup>14</sup> *ibid* at 469.

<sup>15</sup> *ibid* at 469.

<sup>16</sup> *ibid* at 469.



concerned. Indeed, as the popularity of MP3 players increase, the corresponding royalties could add up to substantial amounts.

Furthermore, it has also been suggested that PCs could be brought under the ambit of the AHRA.<sup>17</sup> The exemption of PCs from the AHRA, though perhaps of minor practical significance in 1992, has developed into a major loophole that has prevented the AHRA from having any meaningful impact on the digital piracy problem in recent years.<sup>18</sup> It has been submitted that the statutory loophole should be closed thus leading to an increase to the amount of royalties available to compensate copyright holders and to the end of a legal absurdity.

## **2. Technological Solutions**

Several technologies are available to prevent piracy in the dissemination of digital music. These are called 'Automated Rights Management' or 'Copyright Management Systems'. Under these headings, password protection, micropayment systems, and firewalls have all been suggested as means of protecting intellectual property on the Internet.<sup>19</sup> However, at this time, the two most viable methods seem to be digital watermarking and encryption.<sup>20</sup>

### **A. Digital Watermarking**

Digital watermarking, also known as 'digital signatures' or 'digital fingerprints', allows copyright owners to mark their music files with an invisible "watermark" containing the file's copyright information.<sup>21</sup> While watermarking itself cannot prevent the duplication of files, music playing devices can be equipped to read these watermarks and react to them, preventing a user from reading a file, making second generation copies of a file, or even limiting the number of times a file can be accessed.

<sup>17</sup> David A. Hepler, *Dropping Slugs In The Celestial Jukebox: Congressional Enabling Of Digital Music Piracy Short-Changes Copyright Holders (Fnd1)*, 37 San Diego L. Rev. 1165 (2000) at 1194. See also Aaron L. Melville, *op.cit* at 401 – 404.

<sup>18</sup> David A. Hepler, *op.cit* at 1194.

<sup>19</sup> See, Barak D. Jolish, *Scuttling the Music Pirate*, 17 Ent. Sports L. 9 (1999) at 10.

<sup>20</sup> B.J. Richards, *op.cit* at 440.

<sup>21</sup> *ibid* at 440.

It has been suggested that it would be foolish for the recording industry not to adopt some form of digital watermarking.<sup>22</sup> The watermarking itself is transparent to consumers and would not affect the playback of MP3 files. The major advantage of using watermarks is that they are encoded in such a way that they survive conversion from a CD to MP3 or other compressed audio formats. Thus if a pirate were to try to copy a recording and post it on the Internet, the recording could still be identified despite the change in format. Furthermore, the DMCA contains measures that attempts to prevent any modification or deletion of copyright identification such as watermarks.

Watermarks could just simply be used to indicate the origin of a specific file, making after-the-fact infringement investigations much easier.<sup>23</sup> Although the record industry presumably knows which Internet sites contain authorised files, the presence of a watermark would aid the industry in policing the Internet by providing ways to distinguish between authorised and unauthorised MP3 files.<sup>24</sup> This is important because the DMCA effectively shifts the burden of monitoring the Internet to the copyright owners. Of course, watermarking itself would not prevent audiophiles from creating unauthorised copies of MP3s.

Additionally, the legal remedy provided by the DMCA for copyright owners to use against people who tamper with watermarks would probably not deter pirates from tampering with such watermarks.<sup>25</sup> On the other hand, since a digital watermark will not hamper the ability of a user to playback the file, pirates may be less inclined to remove or tamper with the watermark since they will be able to accomplish their goal of distributing an unauthorised copy of a file by merely making it available on-line.<sup>26</sup> So it seems that while not foolproof, digital watermarking has the potential of facilitating copyright holders' efforts to notify the ISPs of infringers.

Liquid Audio recently introduced technology that enables artists to embed digital

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<sup>22</sup> Paul Veravanich, *op.cit* at 470.

<sup>23</sup> B.J. Richards, *op.cit* at 440.

<sup>24</sup> Paul Veravanich, *op.cit* at 470.

<sup>25</sup> *ibid* at 471.

<sup>26</sup> *ibid* at 471.

watermarks within music files including MP3s.<sup>27</sup> This digital mark, called the 'Genuine Music Mark' is designed to prevent copying by consumers. Liquid Audio technology focuses exclusively on the needs of the music industry and allows users to preview sound files for free.<sup>28</sup> As such, users can purchase an authorised download of the music, which is both encrypted and traceable.

## **B. Digital Encoding**

Another possibility for a technological control on piracy is a system of encryption.<sup>29</sup> While watermarks can be read and reacted to by the playing device, encryption encodes the music file itself. In encryption, the code of the compression software is programmed to prevent copies from being made of downloaded files.

This would be a more aggressive response to the issue of digital music piracy because it attempts to stop users from making the initial MP3 copies of the original works.<sup>30</sup> Such digital encoding can be accomplished in two main ways. The recording industry may attempt to encode CDs in a manner that would prevent users from producing copies of the original CDs. Alternatively, the industry could stop manufacturing CDs and switch to another format, for example Digital Versatile Discs 'DVDs', which already allow for special encoding.

Current DVDs ship with settings for different regions around the world in order to restrict the geographical regions within which a consumer can use a particular DVD.<sup>31</sup> The DVD players themselves already contain anti-copying technology designed to prevent consumers from making copies of DVD movies. If the record industry produced music DVDs rather than music CDs, the industry would be able to encrypt the discs to prevent copying fairly easily since DVD technology is already capable of various types of encryption.

Although this sort of encryption would probably take away the average consumer's

<sup>27</sup> See *Liquid Audio Extends Leading Internet Music Delivery System to Support New 'Genuine Music' Open Standard and MP3 Format*, Business Wire, January 25 1999.

<sup>28</sup> Jessica Trivellini Toney, op.cit at 148-149.

<sup>29</sup> B.J. Richards, op.cit at 440.

<sup>30</sup> Paul Veravanich, op.cit at 471.

ability to make MP3 copies of copyrighted work, it is not guaranteed to completely succeed in stopping determined pirates.<sup>32</sup> If the past is any indicator of future developments, diligent hackers and pirates will ultimately circumvent anti-copying technology.

The DMCA already prohibits the sale of 'black boxes' designed to circumvent copy-prevention technology. Consequently, copyright holders have a legal recourse available in order to prevent the distribution of physical devices that circumvent copy-prevention technology.<sup>33</sup> However, it is conceivable that a sophisticated hacker could invent around a copy protection measure and distribute the music on-line in the same manner that is occurring today with unauthorised MP3s.

As such it seems that physical deterrents to unauthorised copying of original recordings would prevent the average consumer from distributing unauthorised copies of original works.<sup>34</sup> Unfortunately, the encoding of original discs will likely fail to prevent determined pirates from continuing to illegally distribute music files.

### C. Problems with Technological Solutions

Of course rights-management technologies are not perfect.<sup>35</sup> Rights-management systems change the nature of copyright entitlement by granting copyright owners extra-legal and absolute control over their material, thus reversing the Internet trend toward access rights and resetting the copyright balance in favour of exclusion.

This shifting of rights may significantly restrict the three doctrines that have guaranteed access rights under US copyright law – public domain, first sale, and fair use.

First, rights-management systems may constrict the public domain. Currently, the

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<sup>31</sup> For example, DVDs sold in Europe are encoded "Region 2" and are only playable in DVD players that are able to read "Region 2" or "Multi-regional" discs.

<sup>32</sup> Paul Veravanich, *op.cit* at 472.

<sup>33</sup> *ibid* at 472.

<sup>34</sup> *ibid* at 472.

<sup>35</sup> Harvard Law Review Association, *IV. Internet Regulation Through Architectural Modification: The Property Rule Structure Of Code Solutions*, 112 Harv. L. Rev. 1634 (1999) at 1651.

copyright holder loses exclusive rights to her work at the end of the copyright term.<sup>36</sup> As rights-management technology provides direct control of access and its power depends not on the authority of law but on the strength of its technology, technologically protected works may never lapse into the public domain.

Second, rights-management technologies may effectively nullify the 'first sale' doctrine.<sup>37</sup> Currently, copies of a copyrighted work can be freely transferred after the initial purchase. The first sale doctrine permits books and music to be loaned or resold by limiting copyright holders' ability to control the distribution of copies of their works beyond the first sale. However, rights-management technology enables copyright holders to control access to the work beyond the initial distribution. As a result, the first sale doctrine is effectively destroyed.<sup>38</sup>

Finally, rights-management technologies may obliterate the fair use doctrine.<sup>39</sup> Currently, fair use is an affirmative defence to copyright infringement. If the issue of infringement is never reached – because rights-management protection prevents infringement before it can occur – then the fair use question never arises.<sup>40</sup> Again, because information providers control access to the content, it would be within their discretion to grant or deny access for uses that might otherwise constitute a 'fair use'.<sup>41</sup>

### **3. Other Solutions**

#### **A. Allow MP3 Distribution to Maintain Its Current Course**

Another possible course of action for the recording industry may be to take no action at all and let the MP3 revolution take off unhindered by any resistance on their part.<sup>42</sup> On many occasions the record industry has expressed concerns that the technological innovation of the day would undermine its business and result in mass copyright infringement. Two notable examples of this are the audiocassette and the DAT.

<sup>36</sup> Harvard Law Review Association, op.cit at 1652.

<sup>37</sup> See § 109.

<sup>38</sup> Harvard Law Review Association, op.cit at 1653.

<sup>39</sup> See § 107.

<sup>40</sup> Harvard Law Review Association, op.cit at 1653.

<sup>41</sup> *ibid* at 1653.

With the benefit of hindsight, today we know that neither the audiocassette nor the DAT caused irreparable harm to the record industry. The CD has effectively replaced audiocassettes, and the DAT is widely acknowledged as a commercial failure.<sup>43</sup>

Furthermore, while some consumers make unauthorised copies of music and refuse to purchase original copies, many consumers seem to prefer purchasing original musical works.<sup>44</sup> Consumers may want to own an authorised recording because they come packaged with artwork that is unavailable elsewhere. If the recording industry were to exploit this 'edge' then they could keep a tight grip on their market share. For example, to entice consumers to buy original recordings it could provide promotional materials, such as stickers or photographs, or grant membership to a fan club. Moreover, it seems that loyal fans of certain musical artists will usually show their support for these artists by purchasing only original copies of their works.<sup>45</sup>

The record industry should further consider that by allowing people to sample individual songs through MP3 files, the industry could promote artists and possibly increase their fan base. It is possible that some consumers would never listen to a certain artist if they were unable to sample their work for free and with such ease.

With the enormous world-wide audience available over the Internet, recording artists, notably those that are not well established or that only have local followings, would gain exposure to listeners to which they would not otherwise have access to. The net result could be an eventual increase, rather than a decrease, in sales.

## **B. Industry Supported Alternatives to Unauthorised Distribution of Music Files**

To supplement other measures the recording industry could implement its own distribution channels in order to make authorised copies of music files available to on-line consumers.<sup>46</sup> This can be done by taking a progressive stance and setting up industry authorised web sites.

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<sup>42</sup> Paul Veravanich, *op.cit* at 473.

<sup>43</sup> *ibid* at 472-473.

<sup>44</sup> *ibid* at 473.

<sup>45</sup> *ibid* at 473.

<sup>46</sup> *ibid* at 474.

For instance, the recording industry could set up a site where they could offer authorised MP3 files from artists represented by the record company members. There are several means the industry could implement to control access to these files. In return for unlimited free downloading of any available titles, the record companies could charge a fixed membership fee. Alternatively, payment could be on a 'pay-as-you-download' basis. Either way, any payment sum would have to be both reasonable to the consumer, and be able to generate enough return to make a blanket license fee appeal to a broad class of copyright owners.

Maintaining sites to control the distribution of music over the Internet could help the record industry ensure that the artists receive some compensation for the downloading of their works.<sup>47</sup> However, a membership fee to access a MP3 web site or a charge to download a song may not be well received by the on-line community that currently trades in unauthorised MP3 files for free. With the proliferation of unauthorised MP3 files, users of the Internet have already shown a preference for free materials and may be reluctant to pay for downloading songs that they may not like.<sup>48</sup>

#### **4. Legal or Technological?**

With both legally and technologically viable options open to the legislature and recording industry, the question has to be asked which type of solution should be adopted. Taking into account that the law making process is notorious for being slow-moving and copyright protection technology is becoming evermore sophisticated, one might be tempted to opt for the technological solutions.

Furthermore, in the long run, technological barriers to copyright infringement may prove much more valuable than statutory copyright protection.<sup>49</sup> While statutory protection is generally only effective in punishing pirates after the fact, technological barriers can be erected to prevent piracy in the first place – or to take a pessimistic view – at least put it back in the realm of the technologically sophisticated hacker.<sup>50</sup>

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<sup>47</sup> Paul Veravanich, *op.cit* at 475.

<sup>48</sup> *ibid* at 475.

<sup>49</sup> B.J. Richards, *op.cit* at 439.

<sup>50</sup> *ibid* at 439.

However, it is probably more likely that the most effective strategy will be a marriage of technology and law, in which statutes are used to require the use of the technological copyright barriers.<sup>51</sup> Co-operation between the law, the music industry, and hardware and software manufactures could ultimately mean that the technologies will be successfully used to prevent large-scale Internet piracy.

### **5. The Secure Digital Music Initiative**

The recording industry, it seems, has seen the light and has already started to take action. As the *Diamond* case was unfolding, the recording industry convened a meeting of interested parties from many affected industries, including consumer electronics, computer, online music distributors, and wireless device manufacturers, to form a coalition.<sup>52</sup> The coalition was formed to develop security measures in order to confront the issue of unauthorised music files on the Internet.

Dubbed the Secure Digital Music Initiative ('SDMI'), the coalition hopes to create a method of delivering music over the Internet while still maintaining copyright control over the works. The SDMI is a consortium sponsored by the RIAA and the IFPI, and boasts a powerful group of members including Sony, Warner Brothers, IBM, Microsoft, America Online, and even Diamond Multimedia. The SDMI's stated goal was "to develop open technology specifications that protect the playing, storing, and distributing of digital music...".<sup>53</sup>

Ironically, Dr. Leonardo Chiariglione, a key figure in the development of the notorious MPEG standards, was named as SDMI's Executive Director. The SDMI plan requires a two-phase implementation.<sup>54</sup> Phase I, which is already complete, incorporated a screening device within portable players that determines whether or not music is appropriately watermarked, but does not prevent any file from being played.

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<sup>51</sup> B.J. Richards, op.cit at 439.

<sup>52</sup> James M. Burger, op.cit at 33.

<sup>53</sup> See <<http://www.sdmi.org>>. For a detailed critical analysis of SDMI's initial proposals and possible alternatives see Ryan S. Henriquez, *Facing The Music On The Internet: Identifying Divergent Strategies For Different Segments Of The Music Industry In Approaching Digital Distribution*, 7 UCLA Ent. L. Rev. 57 (1999). See also Tamara Milagros-Woeckner, *Karma Or Golden Opportunity?: A New Business Model For The Music Industry Launching Into Cyberspace*, 30 Sw. U. L. Rev. 295 (2001).



Phase II involves the incorporation of watermarks within new digital music. These watermarks will be detected by portable players compliant with Phase I and prevent this new music from being played, while continuing to accept pre-SDMI files, until the user upgrades their device to one with Phase II technology. The incorporation of Phase II technology will then prevent the playback of pirated files.

Just as one would think that things were finally looking better for the recording industry, a potentially serious omen has appeared. The protection system used to encrypt DVDs has been broken.<sup>55</sup> A group of Norwegian programmers duplicated the software equivalent of a skeleton key, which is now on the Internet for anyone to download. The small program allows anyone using a PC with a DVD drive to unlock a DVD movie and record a perfect digital copy of it onto his or her hard-drive.

Thus, the SDMI faces the same vulnerability to hackers cracking the system, and it is likely not a question of whether it will be cracked, but when.<sup>56</sup> The members of SDMI apparently realise this. They asked hackers to enter an SDMI sponsored contest offering US\$10,000 to anyone who could successfully hack any of the six security systems SDMI was considering.<sup>57</sup>

However, the best of the hacking community refused to participate and urged others to do the same. They believed the contest was a publicity ploy and just a way to deprive consumers of what many hackers consider their right to copy and share music online. Jon Johansen, the programmer who unlocked the DVD encryption system, stated that he would not "contribute to enhance the same technologies that are designed to take our rights away".<sup>58</sup>

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<sup>54</sup> See Peter Brown, *SDMI Watermark Selected*, Electronic News, August 16, 1999 at 22.

<sup>55</sup> Chris Oakes, *DVD Hackers Hit With Lawsuit*, Wired News, December 28, 1999 <<http://www.wired.com/news/business/0,1367,33303,00.html>>.

<sup>56</sup> Tamara Milagros-Woeckner, *op.cit* at 315.

<sup>57</sup> Greg Miller, *Piracy Contest is Not Music to Hackers' Ears*, L.A. Times, Sept. 25, 2000 at C1.

<sup>58</sup> See Don Marti, *SDMI or Not?*, Linux Journal, September 19, 2000 <<http://www.linuxjournal.com/article.php?sid=5221>>.

## **6. Conclusions**

Music piracy shows no signs of slowing down and it seems to be affecting music sales. Global music sales were down by 5% in 2001 and global sales of recorded music were down by 9.2% in the first half of 2002.<sup>59</sup> It seems clear that something needs to be done. The question is what and how.

The *Diamond* case was very technical and involved applying an old piece of legislation to a new piece of technology. Ultimately it was found that the Rio and similar MP3 players were not covered by the AHRA and therefore manufacturers are not liable for any royalty payments. However, the decision was far from clear cut with both the District Court and Ninth Circuit applying different reasoning to their decisions. As such it was a case fraught with 'loopholes' and 'technicalities'.

It must be questioned how differently the case would have been decided by a different court or even by a different judge on a different day. Such uncertainty and lack of clear legislation is not what is needed for MP3 and other related playing technology to advance. Such advancements are obviously beneficial to consumers and society at large.

So, as the market for MP3 playing technology grows so does the need for clear legislation. A question that does not seem to have been answered fully by the *Diamond* case is that of the legal status of 'space-shifting', the predominant driving force behind the use of MP3 playing devices.

The *MP3.com* case was straightforward - an Internet entity can not 'space-shift' for its users. As such there was clear direct infringement by MP3.com. However, the question that must be posed is what would be the legal status if the users themselves could 'space-shift' on to a virtual hard-drive. If permissible this allows for a new business model that effectively allows the same functionality as MP3.com's 'Beam-it' service.

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<sup>59</sup> IFPI, *Music Piracy Report 2002* <<http://www.ifpi.org/site-content/antipiracy/piracy2002.html>>.

Again questions remain unanswered. Taking a view with respect to the future, answers to such questions will be very important. At a time where the general consensus seems to predict a future where everyone's software, data, music, movies and games will be provided or streamed over the Internet, with more of an ASP (Application Service Provider) based business model, it seems that such questions need to be answered.

The *Napster* case was the more complicated out of the trilogy. Its complexities were no more so based on the importance of the decision in the case, than the simplicity of the idea behind it. The case involved an interpretation of the recently enacted DMCA and it may seem that it is already out of date.

More importantly *Napster* involved applying traditional copyright concepts of direct, contributory, and vicarious liability to a new-age piracy machine of an unprecedented scale. Again, some issues need to be dealt with. It needs to be known with certainty when an ISP will be liable for contributory and vicarious liability. Such certainty is important especially as the Internet is destined to play an even bigger role in our futures.

The 'space-shifting' and 'sampling' issues seem to also have been left open. More importantly the use of legitimate 'peer to peer' systems seems to be hanging in the balance, with doctrines such as the 'staple article of commerce' being given an augmented application. There are a number of important uses for 'peer to peer' technology that justifies having clearly delineated law on how it can be utilised, or not. Important socially beneficial uses include using the system for collaborative working relationships in business, education, and research.

Overall, there is a need for a definitive answer to the legal status of 'space-shifting', not just within the context in which music was 'space-shifted' in the *Diamond*, *MP3.com*, and *Napster* cases, but also within a wider context.

One of the inherent themes throughout this paper has been to consider the future. If the questions and gaps highlighted can be answered and filled in a wider sense so as to encompass all such technologies and not be specific to just musical content, then

one of main aims of this paper has been fulfilled. That is to consider not just the current problems of digital distribution of music but the future digital distribution of all content. After all, it all boils down to the same thing – 1s and 0s.

For example, it is not a far stretch to imagine handheld movie playing devices. If movies were to be ‘space-shifted’ from DVDs on to such handheld devices how relevant would the analysis in the *Diamond*, *MP3.com*, and *Napster* cases and subsequent case law and legislation be?

It seems that to deal with piracy and to protect the interest of copyright holders in relation to all types of digital content, immediate and forward-looking action is needed. All interested parties must come together and agree upon a solution that marries both the law and technology. Not only this but copyright holders must also embrace new technology instead of fearing it, even if it means providing access to copyrighted material at a lower profit.

To conclude: “*Freedom and not servitude is the cure for anarchy; as religion, and not atheism, is the true remedy for superstition*”.<sup>60</sup>

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<sup>60</sup> Edmund Burke (1729-1797).

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